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08/976,159	11/21/1997	NEIL FREDERICK BRANDER	2656/2	1527

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EXAMINER	
JEANTY, ROMAIN	
ART UNIT	**PAPER NUMBER**
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BEFORE THE BOARD OF PATENT APPEALS AND INTERFERENCES

Application Number: 08/976,159
Filing Date: November 21, 1997
Appellant(s): BRANDER ET AL.

Michelle Carniaux (Reg. No. 36,098)

For Appellant

EXAMINER'S ANSWER

This is in response to Appellant's brief on appeal filed 07/09/2001.

(1) Real Party in Interest

A statement identifying the real party in interest is contained in the brief.

(2) Related Appeals and Interferences

A statement identifying the related appeals and interferences which will directly affect or be directly affected by or have a bearing on the decision in the pending appeal is contained in the brief.

(3) Status of Claims

The statement of the status of the claims contained in the brief is correct.

(4) Status of Amendments After Final

The appellants' statement of the status of amendments after final rejection contained in the brief is correct. No amendment after final has been filed.

(5) Summary of Invention

The summary of invention contained in the brief is correct.

(6) Issues

The appellants statement of the issues in the brief is correct.

(7) Grouping of Claims

Appellant's brief includes a statement that claims 1-9, 12-36 stand or fall together and provides reasons as set forth in 37 CFR 1.192(c)(7) and (c)(8).

(8) Claims Appealed

The copy of the appealed claims contained in the Appendix to the brief is correct.

(9) Prior Art of Record

The following is a listing of the prior art of record relied upon in the rejection of claims under appeal.

The Depository Trust Company (DTC)

Hawkins U.S. Patent No. 5,497,317

Lupien et al U.S. Patent No. 6,098,051

(10) Grounds of Rejection

The following ground(s) of rejection are applicable to the appealed claims:

1. The following is a quotation of 35 U.S.C. 103(a) which forms the basis for all obviousness rejections set forth in this Office action:

> (a) A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. Patentability shall not be negatived by the manner in which the invention was made.

2. Claims 1-9, 12-13, 21-36 are rejected under 35 U.S.C. 103(a) as being unpatentable over The Depository Trust Company (Herein referred to "DTC") in view of Hawkins et al. (US. 5,497,317).

As to claims 1, 9, 12-13, 21-22, 29, 31,34 and 36, DTC discloses:

a system for settlement of a securities trade by obtaining agreement as to the details of the trade among a broker, institution, agent and interested parties comprising:

a. A broker, institution, agent and interested parties to send and receive communications (Page 3, lines 1-8).

b. A standing instruction database containing sets of instructions for trade settlement previously input by the institution, the broker and the agent (Page 3, lines 4-8).

c. Standing instructions database (Page 3 , lines 4-6) which is configured to :

i. Receive a communication from the broker containing notice of order execution information (Page 3, lines 20-22).

ii. Receive a communication from the institution containing institution allocation institution information (Page 3, lines 22-26).

iii. Match, the institution communication with the broker communication based on information contained in both communications (Page 4, lines 14-16).

iv. If there is a match, generate a confirmation for the trade based on information contained in the broker communication, information contained in the institution communication and information stored in the standing instructions database (Page 20 , lines 5-10).

v. Make available the confirmation as a communication to the institution, broker, agent and interested parties which facilitates the exchange of money and securities to settle the trade (Page 20, lines 9-11).

DTC discloses all of the limitations above, but fails to disclose a processing computer. Hawkins discloses a trading system using a computer system to include a software, and computer processor for exchanging of funds and securities according to confirmation information (column 4, lines 65-66; column 5, lines 1-5 and claims 1 and 2). It would have been

obvious to a person of ordinary skill in the art at the time of the applicant's invention to combine the disclosure of the DTC report with Hawkins et al. One would have been motivated to use this combination because it would provide the capability to quickly and efficiently execute trading transactions.

As to claims 2, 23, and 32, DTC further discloses the where the broker communication and the institution communication each contain the data fields of:

an institution identification number, a broker identification number, a security identification number, a buy/sell code, a number of shares or face value, a settlement amount (Page 35 paragraph number 4).

As to claims 3 and 24, DTC further discloses a broker identification number for that communication and the institution communication comprises a data field to reference the identification number of the broker communication and the processing computer matches the broker communication and the institution communication on the basis of the broker identification number (see entire page 34).

As to claim 4, DTC further discloses wherein the information in the standing database contains record for the internal customer account numbers of the institution's accounts and the corresponding internal account numbers used by the broker for those accounts and a record to link those internal account numbers and if there is a match, the processing computer generates the confirmation by accessing the record that links the internal account numbers and the database on those account numbers. See pages 38 and 39.

As to claims 5 and 25, DTC further discloses an institution communication both contain a data field indicating a settlement amount for the trade, the institution communication additionally contains a tolerance data field which specifies a tolerance value by which a match based on settlement amount could vary and the processing computer matches the broker communication and the institution communication so long as the settlement amounts vary only by an amount within the tolerance (Page 36, last paragraph: Page 51, last 4 paragraphs).

As to claims 6 and 26, DTC further discloses a system in which the institution communication contains a data field which indicates that the institution is the affirming party for the trade and the processing computer generates a confirmation which contains this indication in a data field (Page 52, last two paragraphs).

As to claims 7, 8, 27, 28 and 32, DTC further discloses the processing computer being coupled to a match database into which the processing computer stores the broker and the institution communication and retrieves it before attempting to match the broker communication with the institution communication (page 12, paragraph 3).

As to claim 13, DTC discloses: a broker communication containing data within data fields designated by:

a. An institution identification number, a broker identification number, a security identification number, a buy/sell code, a number of shares or face value, a settlement amount, trade date, and trade settlement date (Page 35 paragraph 4).

b. An institution communication containing data within data fields designated by:

An institution identification number, a broker identification number, a security identification number, a buy/sell code, a number of shares or face value, a settlement amount (Page 35 paragraph 4).

Compare (match), the institution communication with the broker communication based on information contained in both communications (Page 4 of 72, lines 14-16; Page 20, lines 5-10).

iv. If there is a match, generate a confirmation for the trade based on information contained in the broker communication, information contained in the institution communication and information stored in the standing instructions database (Page 20, lines 5-10).

DTC fails to explicitly disclose a processing computer. However, Hawkins discloses the use of a computer system and a computer processor (col. 4, lines 65-66 and col. 5, lines 1-5). It would have been obvious to a person of ordinary skill in the art at the time of the applicant's invention to modify the disclosure of the DTC by including a computer processor as taught by Hawkins. In so doing would provide the capability to execute trade transactions faster and efficiently.

As to claim 14, DTC discloses:

a. A trade confirmation communications system comprised to receive, process and transmit communications from and to the parties (Page 3, lines 1-8).

b. A standing instructions data base coupled to the trade confirmation communications system having at least one data table (for storing a plurality of information related to the trade stored by at least one of the parties (Page 3, lines 4-8; Page 50, paragraph# 4).

c. Receive a trade communication containing order execution information from one of the parties and receiving information concerning a trade allocation information from an other one of the parties (Page 3, lines 20-26); and

d. The trade communications system further comprised to generate a confirmation based on information within the received communication and information stored within the standing instruction database (Page 20, lines 9-11).

DTC fails to explicitly disclose a matching controller. Lupien discloses a crossing network utilizing satisfaction density profile comprising a matching controller (col. 6, lines 46-60). It would have been obvious to a person of ordinary skill in the art at the time of the applicant's invention to modify the disclosure of DTC by including a matching controller. In so doing, would provide a user with the capability to quickly and efficiently execute and matching trading transactions.

As to claim 15, DTC further discloses of institution, brokers, and interested parties information in a table, but fails to explicitly disclose a data table for each of these entities. Thus, it would have been obvious to a person skilled in the data processing art to include these data tables into DTC for facilitating easy entry and deleting of trading information for his users.

As to claim 16, DTC discloses the claimed limitation "wherein the standing database further comprises at least one institution information data table and wherein at least one institution information data table id for storing institution and account information" by entering account information (page 40, paragraph 1).

As to claim 17, DTC further discloses the claimed limitation "wherein the standing database further comprises at least one institution information data table and wherein the at least

one broker information data table is for storing settlement information" by entering settlement information (see entire page 40 of DTC).

As to claim 19, DTC discloses the claimed limitation "wherein the standing instruction database further comprises at least one institution information data table and wherein at least one broker information data table is for broker confirmation information" by entering institution information and broker confirmation information in a table (page 50, paragraph# 2).

As to claim 20, DTC discloses the claimed limitation wherein the data table further comprises at least one file containing the names and addresses all parties involved in the trade (page 54 paragraph# 3).

As to claim 30, DTC further discloses the claimed limitation "wherein the step of storing information in the standing database comprises the storing of records for internal customer account numbers of the institution's accounts and corresponding internal account numbers used by the broker for those accounts and a record to link those accounts and the step of generating a confirmation and comprises the further step of accessing the record that links the internal account records and accessing the internal account number records based on that link" by linking the broker account numbers to customer accounts. See page 18, paragraph 4.

As to claims 33 and 35, DTC discloses using the matched confirmation information to settle a trade agreement (Page 20 second paragraph# 2 and page 29 paragraphs 2 and 3).

Claim 18 is rejected under 35 U.S.C. 103(a) as being unpatentable over DTC in view of Lupien as applied to claim 14 above and further in view of Hawkins et al (US Patent No. 5,497,317)

As to claim 18, DTC and Lupien disclose information data table and a broker/institution link data table. But DTC and Lupien fails to explicitly disclose storing a set of cross-references between the broker account number and the institution customer account number. Hawkins et al discloses storing a cross-reference for a broker and institution customer account. Note column 6, lines 9-35. It would have been obvious to a person of ordinary skill in the art at the time the invention was made to modify DTC and Lupien to include storing a set of cross-refences as taught by Hawkins et al in order to correlate alert and trade settlement messages among trade participants.

(11) **Response to Arguments**

A. Issue A.

Group 1: Appellants asserted Depository Trust Company "DTC" fails to teach the claimed invention. Appellants further supported their assertion by arguing on page 5 that DTC reference neither teaches nor suggests automatically matching received notice of execution from a broker with institution allocation instruction information from an institution. Appellant further argues that the examiner apparently relies on page 4 of 72, lines 14-16 of the DTC reference as disclosing Applicants recited matching an institution communication with a broker communication that contains a notice of order execution.

In response, the examiner respectfully disagrees with the Appellants because DTC teaches on page 4 of 72, line 14-16 of the matching of the trade data including a notice of order execution. In addition, Page 3 paragraph 2 also identifies what the trade data is.

Appellants further argue that claim 1 recites the following:

.... a standing instructions database containing sets of instructions for trade settlement input by the institution, the broker and the agent prior to the securities trade ....

In response, the examiner notes that Depository Trust Company (DTC) teaches such standing instructions database for storing brokers and institution instructions trading information. Note entire Page 3.

Appellants further argues on page 6 that that the DTC reference, on the other hand, neither teaches nor suggests, and in fact teaches away from, matching of information in the NOE and the II. Rather, in the DTC reference, trade settlement instructions (i.e., trade input) is input after trade execution and during the trade settlement process. The system matches that trade input to the II. See The Depository Trust Company filing, page 20, lines 5-6. This system facilitates trade settlement only by reducing the number of steps related to the *traditional confirmation affirmation* process of the trade settlement. Such a trade settlement system can be referred to as "Matching I". Accordingly, the DTC reference neither teaches nor suggests automatically matching received ***notice of execution*** information from a broker with *institution allocation instruction* information from an institution, and nowhere does DTC reference even

suggest that this trade data is received in a communication containing a notice of order execution.

In response, the examiner respectfully disagrees with Appellants' arguments because the Depository Trust Company (DTC) clearly teaches matching an institution instruction (communication) with a broker institution instructions (communication). Note page 3, paragraph 2, and page 4, lines 16- 20.

Group II: Response to Appellants' assertion: Group II. Claim 9 recites the following:

Appellants argue on page 8 that that DTC reference describes, for example, matching institution instructions with trade data receive from the broker-dealer, and the trade data, however, does not include a notice of execution.

In response, the examiner respectfully disagrees with the Appellants because DTC teaches on page 4 of 72, line 14-16 of the matching of the trade data including a notice of order execution . In addition, Page 3 paragraph 2 also identifies what the trade data is.

Group III

Appellants further argue on page 8 that nothing within the DTC reference even suggests matching communications which contain specific fields (data fields from a notice of executed order and an institution allocation instruction.

In response, the examiner respectfully disagrees with the Appellants because DTC teaches on page 4 of 72, line 14-16 of the matching of the trade data and to include a notice of order execution . In addition, Page 3 paragraph 2 also identifies what the trade data is.

B. ISSUE B

Group I: Appellants argue that neither the DTC reference nor the Lupien patent, alone or combined, renders obvious any *of* claims 14-17, and 19-20. It is respectfully submitted that there is no suggestion to combine the DTC reference with the Lupien patent. In particular, the DTC reference relates to trade *settlement.* In sharp contrast, the Lupien patent relates to matching buy *and sell orders* based on a satisfaction and quantity profile. A person *of* skill in the art, seeking to improve the system described in the DTC reference, would not look to a system that matches buy and sell orders. These two systems simply relate to different types of processes at different stages in the trade. Moreover, claim 14 recites similar subject matter to that discussed above in connection with claim 1. Claims 15-17, 19 and 20 depend from claim 14. Accordingly, arguments presented above in connection with claim 1 and the DTC reference apply also to claims 14-17, 19 and 20. The Lupien patent does not cure the noted deficiencies.

In response, the examiner respectfully disagrees with the Appellants' arguments because DTC teaches on page 4 of 72, line 14-16 of the matching of the trade data and to include a notice of order execution . In addition, Page 3 paragraph 2 also identifies what the trade data is. In addition, In response to Appellants' argument that there is no suggestion to combine the DTC

reference and the Lupien reference, the examiner recognizes that references cannot be arbitrarily combined and that there must be some reason why one skilled in the art would be motivated to make the proposed combination of primary and secondary references. In re Nomiya, 184 USPQ 607 (CCPA 1975). However, there is no requirement that a motivation to make the modification be expressly articulated. The test for combining references is what the combination of disclosures taken as a whole would suggest to one of ordinary skill in the art. In re McLaughlin, 170 USPQ 209 (CCPA 1971). References are evaluated by what they suggest to one versed in the art, rather than by their specific disclosures. In re Bozek, 163 USPQ 545 (CCPA) 1969. In this instance, combining DTC with Lupien would provide a user with the capability to quickly and efficiently execute and matching trading transactions.

C. ISSUE C

Group I. Appellants argue that claim18 depends from claim 14 and that the arguments presented above in connection with claim 14 and the DTC reference and the Lupien patent apply equally to claim 18.

In response, again the examiner respectfully disagrees with Appellants' arguments because the combination of DTC and Lupien teaches Appellants' claimed invention. Hawkins et al discloses storing a cross-reference for a broker and institution customer account. Note column 6, lines 9-35 of Hawkins et al. It would have been obvious to a person of ordinary skill in the art at the time the invention was made to modify the DTC reference and Lupien to include storing a

cross-refences in the same conventional manner as taught by Hawkins et al in order to correlate alert and trade settlement messages among trade participants.

The Examiner submits that all three references (DTC, Hawkins and Lupien) are sufficiently enabling for their respective cited teachings. Appellants' arguments are non-persuasive for the reasons cited above. Thus, it is submitted that the rejections should be sustained.

Respectfully submitted,

RJ
March 6, 2006

Conferees

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File No. SR-DTC-93-7

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 19b-4

Proposed Rule Change

by

THE DEPOSITORY TRUST COMPANY

Pursuant to Rule 19b-4 under the
Securities Exchange Act of 1934

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1. Text of Proposed Rule Change

(a) The proposed rule change consists of an enhanced Institutional Delivery ("ID") system of The Depository Trust Company ("DTC") which will have interactive options and other new features and which will also unify the existing ID and International ID systems, as described in the DTC Memorandum to Participants and Other ID Users and the Functional Design Paper for Enhanced, Interactive Capabilities, both dated March 31, 1993, attached hereto as Exhibit 2.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

(a) DTC's Board of Directors has not taken, and is not required to take, action on the proposed rule change.

(b) The following person at DTC is prepared to respond to questions and comments on the proposed rule change: Carl H. Urist, Deputy General Counsel, (212) 898-3220.

3. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

The purpose of the proposed rule change is to enhance the ID system, by including interactive options and other new features, in order to improve post-trade data flow and reduce costs to Participants and other ID system users. All new features will be

optional. The principal new features of the enhanced ID system, with the planned implementation period for each feature indicated in parenthesis, are as follows:

1. Standing Instructions Database (late 1993). The Standing Instructions Database ("SID") will be a repository for customer account and settlement information furnished by institutions, agents and broker-dealers. The information will include items such as interested parties, the agent for the customer and the agent's internal account number for the customer. When entering trade data into the ID system, a broker-dealer can simply refer to the account designations in the SID, and the ID system will automatically add the necessary associated detail (such as customer name, agent and interested parties) to the confirmation. The SID will eliminate the need for the broker-dealer to maintain all such information in its internal records and to provide all such information each time that it enters trade data into the ID system.

2. Electronic Mail Features (late 1993 through early 1994). These features will enable ID system users to send and receive a Notification of Order Execution ("NOE"), Institution Instructions and an Institution Request for Cancellation/Correction. An NOE can be sent by a broker-dealer to communicate the details of an order execution to an institution. If the institution accepts the NOE, the institution can send the broker-dealer Institution Instructions containing information, such as allocations of block trades, which is needed by the broker-dealer to enter trade data into the ID system for preparation of confirmations. The institution can send

the broker-dealer an Institution Request for Cancellation/Correction when the institution disagrees with a confirmation that the institution has received through the ID system. Currently, broker-dealers and institutions make telephone calls or send facsimile transmissions to communicate the information which will be sent through these electronic mail features.

3. Interactive ID (early 1994). In addition to using the ID system in the current batch mode, ID system users will be able to use the system interactively, with the capability of accomplishing all ID system processing within as little as a single business day.

4. Matching (mid 1994). As an alternative to the current confirmation and affirmation processing in the ID system, DTC will offer a matching option. The enhanced ID system will match trade data received from the broker-dealer with Institution Instructions received from the institution. The results of the matching will be reported through the distribution of various output reports to the broker-dealer, the agent and the institution.

5. Authorization/Exception Processing and T+5 Reporting (mid 1994). Since most unaffirmed trades of DTC-eligible securities eventually result in book-entry deliveries effected by deliver orders, the enhanced ID system will enable the delivering parties to ID system trades to authorize automated settlement of unaffirmed trades. In addition, delivering parties will be allowed to authorize settlement of trades on the settlement date and later.

This feature will enable delivering parties to take advantage of the efficiencies of pre-authorized automated settlement.

The proposed rule change is consistent with the requirements of the Securities and Exchange Act of 1934 (the "Act") and the rules and regulations thereunder applicable to DTC since the proposed rule change will further automate the process by which securities transactions are cleared and settled. The proposed rule change will be implemented consistently with the safeguarding of securities and funds in DTC's custody or control or for which it is responsible since the proposed rule change enhances DTC's existing ID system.

4. Self-Regulatory Organization's Statement on Burden on Competition

DTC perceives no impact on competition by reason of the proposed rule change.

5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

In 1990, at the request of the Group of Thirty U.S. Working Committee's T+3 Brokers and Banks Subgroup, DTC analyzed ID system activity. Based on that analysis and other information, the Subgroup formulated a proposal for an enhanced ID system. In November 1990 the proposal was distributed by the Group of Thirty Working Committee for comment. In February 1991 an ID Focus

Committee was established to review the November 1990 proposal. The Focus Committee consisted of broker-dealer, bank and institutional users of the ID system affiliated with the Securities Operations Division of the Securities Industry Association, the Bank Depository User Group, the New York Clearing House Association, the Investment Company Institute and the Investment Counsel Association of America. The Focus Committee reviewed the Subgroup's proposal and in May 1991 recommended it to the Subgroup. Subsequent study by DTC suggested that Participants and other ID users would benefit from an even further enhanced ID system.

In January 1992 DTC published a memorandum entitled "An Interactive Option for the Institutional Delivery System," a copy of which is attached hereto as Exhibit 3. That memorandum proposed a new ID system with interactive options which would also unify the existing ID and International ID systems. In May 1992 a second ID Focus Committee was established to determine the specifications of the new ID system. The second ID Focus Committee consisted of representatives of the same user community as the first Focus Committee as well as a representative of the Industry Standardization for Institutional Trade Communications Group. The second ID Focus Committee completed its review of the system specifications in October 1992. The proposed rule change reflects the deliberations of the second ID Focus Committee as well as information obtained by DTC subsequently from various ID users.

Written comments from DTC Participants or others have not been received on the proposed rule change.

6. Extension of Time Period for Commission Action

DTC does not consent to an extension of the time period specified in Section 19(b)(2) of the Act.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

Not applicable.

8. Proposed Rule Change Based on the Rules of Another Self-Regulatory Organization or of the Commission

The proposed rule change is not based on a rule either of another self-regulatory organization or of the Commission.

9. Exhibits

1. Completed Notice of Proposed Rule Change for publication in the Federal Register.

2. DTC Memorandum to Participants and Other ID Users and Functional Design Paper for Enhanced, Interactive Capabilities, both dated March 31, 1993.

3. DTC Memorandum dated January 9, 1992 to Participants and Other ID Users.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the self-regulatory organization has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

The Depository Trust Company

By: /s/William T. Dentzer, Jr.
William T. Dentzer, Jr.
Chairman

Exhibit 1

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34- ; File No. SR-DTC-93-7)

SELF-REGULATORY ORGANIZATIONS

Proposed Rule Change by
The Depository Trust Company
Relating to an enhanced Institutional Delivery System with interactive options and other new features
Comments requested within _____ days after the date of this publication

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Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934, 15 U.S.C. 78s(b)(1), notice is hereby given that on ____, The Depository Trust Company filed with the Securities and Exchange Commission the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change.

The proposed rule change consists of an enhanced Institutional Delivery ("ID") system of The Depository Trust Company ("DTC")

which will have interactive options and other new features and which will also unify the existing ID and International ID systems, as described in the DTC Memorandum to Participants and Other ID Users and the Functional Design Paper for Enhanced, Interactive Capabilities, both dated March 31, 1993, attached as Exhibit 2 to DTC's filing on Form 19b-4, File No. SR-DTC-93-7.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the placed specified in Item IV below. The self-regulatory organization has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.

(A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

The purpose of the proposed rule change is to enhance the ID system, by including interactive options and other new features, in order to improve post-trade data flow and reduce costs to Participants and other ID system users. All new features will be optional. The principal new features of the enhanced ID system,

with the planned implementation period for each feature indicated in parenthesis, are as follows:

1. Standing Instructions Database (late 1993). The Standing Instructions Database ("SID") will be a repository for customer account and settlement information furnished by institutions, agents and broker-dealers. The information will include items such as interested parties, the agent for the customer and the agent's internal account number for the customer. When entering trade data into the ID system, a broker-dealer can simply refer to the account designations in the SID, and the ID system will automatically add the necessary associated detail (such as customer name, agent and interested parties) to the confirmation. The SID will eliminate the need for the broker-dealer to maintain all such information in its internal records and to provide all such information each time that it enters trade data into the ID system.

2. Electronic Mail Features (late 1993 through early 1994). These features will enable ID system users to send and receive a Notification of Order Execution ("NOE"), Institution Instructions and an Institution Request for Cancellation/Correction. An NOE can be sent by a broker-dealer to communicate the details of an order execution to an institution. If the institution accepts the NOE, the institution can send the broker-dealer Institution Instructions containing information, such as allocations of block trades, which is needed by the broker-dealer to enter trade data into the ID system for preparation of confirmations. The institution can send the broker-dealer an Institution Request for Cancellation/

correction when the institution disagrees with a confirmation that the institution has received through the ID system. Currently, broker-dealers and institutions make telephone calls or send facsimile transmissions to communicate the information which will be sent through these electronic mail features.

3. Interactive ID (early 1994). In addition to using the ID system in the current batch mode, ID system users will be able to use the system interactively, with the capability of accomplishing all ID system processing within as little as a single business day.

4. Matching (mid 1994). As an alternative to the current confirmation and affirmation processing in the ID system, DTC will offer a matching option. The enhanced ID system will match trade data received from the broker-dealer with Institution Instructions received from the institution. The results of the matching will be reported through the distribution of various output reports to the broker-dealer, the agent and the institution.

5. Authorization/Exception Processing and T+5 Reporting (mid 1994). Since most unaffirmed trades of DTC-eligible securities eventually result in book-entry deliveries effected by deliver orders, the enhanced ID system will enable the delivering parties to ID system trades to authorize automated settlement of unaffirmed trades. In addition, delivering parties will be allowed to authorize settlement of trades on the settlement date and later. This feature will enable delivering parties to take advantage of the efficiencies of pre-authorized automated settlement.

The proposed rule change is consistent with the requirements of the Securities and Exchange Act of 1934 and the rules and regulations thereunder applicable to DTC since the proposed rule change will further automate the process by which securities transactions are cleared and settled. The proposed rule change will be implemented consistently with the safeguarding of securities and funds in DTC's custody or control or for which it is responsible since the proposed rule change enhances DTC's existing ID system.

(B) Self-Regulatory Organization's Statement on Burden on Competition

DTC perceives no impact on competition by reason of the proposed rule change.

(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

In 1990, at the request of the Group of Thirty U.S. Working Committee's T+3 Brokers and Banks Subgroup, DTC analyzed ID system activity. Based on that analysis and other information, the Subgroup formulated a proposal for an enhanced ID system. In November 1990 the proposal was distributed by the Group of Thirty Working Committee for comment. In February 1991 an ID Focus Committee was established to review the November 1990 proposal. The Focus Committee consisted of broker-dealer, bank and

institutional users of the ID system affiliated with the Securities Operations Division of the Securities Industry Association, the Bank Depository User Group, the New York Clearing House Association, the Investment Company Institute and the Investment Counsel Association of America. The Focus Committee reviewed the Subgroup's proposal and in May 1991 recommended it to the Subgroup. Subsequent study by DTC suggested that Participants and other ID users would benefit from an even further enhanced ID system.

In January 1992 DTC published a memorandum entitled "An Interactive Option for the Institutional Delivery System," a copy of which is attached Exhibit 3 to DTC's filing on Form 19b-4, File No. SR-DTC-93-7. That memorandum proposed a new ID system with interactive options which would also unify the existing ID and International ID systems. In May 1992 a second ID Focus Committee was established to determine the specifications of the new ID system. The second ID Focus Committee consisted of representatives of the same user community as the first Focus Committee as well as a representative of the Industry Standardization for Institutional Trade Communications Group. The second ID Focus Committee completed its review of the system specifications in October 1992. The proposed rule change reflects the deliberations of the second ID Focus Committee as well as information obtained by DTC subsequently from various ID users.

Written comments from DTC Participants or others have not been received on the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 35 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve such proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 500 North Capital Street, Washington, D.C. 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room, 1100 L Street, N.W., Washington, D.C.

Copies of such filing will also be available for inspection and copying at the principal office of the above-mentioned self-regulatory organization. All submissions should refer to the file number in the caption above and should be submitted within ___ days after the date of this publication.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.

Secretary

Dated:

CHUUNTID-F.SEC

THE DEPOSITORY TRUST COMPANY
MEMORANDUM

March 31, 1993

TO: PARTICIPANTS AND OTHER ID USERS

ATTENTION: DIRECTOR OF OPERATIONS
OPERATIONS PARTNER/OFFICER

SUBJECT: AN INTERACTIVE OPTION FOR THE INSTITUTIONAL DELIVERY SYSTEM

This memorandum outlines DTC's plan to include an option for interactive use of the Institutional Delivery (ID) system in order to improve post-trade data flow and reduce costs to Participants and other ID users. A detailed document entitled "Institutional Delivery (ID) System Functional Design Paper for Enhanced, Interactive Capabilities" is attached.

I. Background

In 1990, DTC responded to the G-30 U.S. Working Committee's T+3 Brokers and Banks Subgroup request to analyze ID system activity. Based on this analysis and other information, the Subgroup distributed for comment by the G-30 U.S. Working Committee in November, 1990, a proposal for an enhanced ID system. In February 1991, an ID Focus Committee was established to review the November proposal. The Focus Committee consisted of broker-dealer, bank, and institutional users of ID, including representatives from the Securities Operations Division (SOD) of the Securities Industry Association (SIA), the Bank Depository User Group (BDUG), New York Clearing House (NYCH), the Investment Company Institute (ICI), and the Investment Counsel Association of America (ICAA). After several meetings, the Focus Committee endorsed the Subgroup's proposal in May 1991. Subsequent study by DTC suggested that Participants and other ID users would benefit from an even further enhanced ID system.

In January 1992, DTC published a memorandum entitled "An Interactive Option For The Institutional Delivery System," which proposed a new system with interactive options which would also unify the existing ID and International ID systems. In May 1992, a second ID Focus Committee was established to determine the specifications of the new system. This

The first activity to take place is the broker-dealer's execution of a trade on behalf of the institution. The broker-dealer will be able to communicate the details of the execution via the Notification of Order Execution (NOE) function. The broker-dealer can provide the notification: 1) for each execution of a trade; 2) once the block order has been filled; and/or 3) at end of day, if the block has not been completely executed. The exact use of Notification of Order Execution will be flexible, thereby allowing it to be tailored to the requirements of both broker-dealer and institution.

The institution would generally use the Notification of Order Execution to prime the allocation process. The system will also allow the institution to reject the NOE. The reason for rejection of the NOE would be included in the rejection message (e.g., Don't Know, etc.).

Assuming acceptance of the Notification of Order Execution, the institution could then prepare Institution Instructions. Institution Instructions contain individual trades, account allocations of block trades, and step out broker information. Allocations and step out information are needed by the executing broker-dealer prior to entering trade input to DTC. The Institution Instructions would be forwarded to the broker-dealer and, if the institution and broker-dealer have elected to match, the data would be retained by DTC for that purpose. The Institution Instructions provided to the broker-dealer would be augmented by the broker internal account number, if resident on SID.

Upon receipt of the Institution Instructions, the executing broker-dealer (or broker-dealers if this were a step out trade) would ensure their accuracy. If the information did not agree with the execution, the broker-dealer would submit an Institution Instruction Cancel/Correction including the reason for rejection (e.g., wrong CUSIP, over allocated, etc.).

Assuming the Institution Instructions are accurate, the broker-dealer could then allocate the trade, and provide DTC with broker trade input - one per account. If the broker internal account number for the account is resident on SID, there will be no need for the broker-dealer to enter customer, interested party, agent, and clearing agent information. Further, if the broker-dealer entered clearing broker information into SID, this information could also be eliminated from the input.

Since the new system will merge the existing ID and International ID systems, broker trade input can be submitted to DTC in one of three formats - existing domestic or international, or a unified enhanced format. The enhanced format, besides unifying the domestic and international formats, allows for cancellation and correction via broker confirmation number, in lieu of cancellation by DTC control number or the administrative cancellation procedure. It also allows for matching of DTC ineligible issues by codifying settlement related information. All three formats may be submitted interactively throughout the day or once daily at the broker-dealer's choosing. Broker-dealers can either submit trade input

exclusive of customer and settlement information by linking their broker internal account number to the customer/account established on SID or retrieve the information from their internal customer databases and include this information on each trade submitted.

For broker-dealers and institutions electing to match, DTC would compare broker trade input to Institution Instructions. If a match is found and the institution has affirmation authority, a matched affirmed confirmation is generated; otherwise, a matched confirmation is produced. The matched affirmed confirmation takes the place of both the confirmation and eligible/ineligible/CNS eligible trade report and can be provided to all parties named on the confirmation. The matched confirmation would be used to notify the affirming party that the institution agrees with the details of the trade. The affirming party could then affirm the trade, and a matched affirmed confirmation would be produced.

If a match is not found, but all details other than the money fields required to calculate settlement amount match, then a Potential Match Report would be generated and forwarded to the broker-dealer and institution immediately. If a Potential Match cannot be ascertained, an Unmatched Report would be generated to institutions and broker-dealers at end of day. The report would list all unmatched broker trade input and Institution Instructions inclusive of those items previously reported on the Potential Match Report. In addition, Unmatched Confirmation and Unmatched Institution Instructions would be made available to all named parties.

Trades could be unmatched because either the institution or broker-dealer failed to submit their input or because one or both of the submissions are incorrect. Incorrectly submitted broker-dealer trade input or Institution Instructions can be cancelled and resubmitted, as required. The new cancellation procedure facilitates the process by allowing broker-dealers to cancel trade input by use of the broker confirmation number and institutions to cancel Institution Instructions by the institution reference number - both of which are assigned by the submitting party.

For traditional confirmation/affirmation processing, if the affirming party agrees with the confirmation, an affirmation is submitted and an affirmed confirmation (the equivalent of the current Eligible/Ineligible/CNS Eligible Trade Reports) is generated to the deliverer, receiver and any other party to the trade that requests it. All confirms not affirmed by end of day will be listed on the T+2/T+3/T+4 Unaffirmed Report which will be available to the broker-dealer, affirming party, and other parties named on the confirmation.

If the institution disagrees with the confirmation, an Institution Request for Cancellation/Correction (IRFCC) can be submitted. The IRFCC indicates the reason(s) the institution is requesting the broker-dealer to cancel/correct the confirm. The IRFCC is forwarded to the broker-dealer which, if in agreement with the institution, can use the previously described cancellation procedure to cancel the existing trade and resubmit the corrected trade.

In addition to the cancellation and resubmission procedure described previously, a new correction procedure will be made available. The correction procedure allows broker-dealers to process corrections to fields that do not affect net amount, settlement information, or the parties to the trade. These corrections will produce corrected confirmations or corrected affirmed confirmations depending on whether the trade was previously affirmed. Since these changes are "non-material", re-affirmation of these corrections will not be required. Non-material fields include account type, market, role, special instructions and data elements in the security description.

Whether matching or confirmation/affirmation is being used, a Cumulative Eligible Trade Report (CETR) will be produced at end of day T+3 (approximately 4:00am). The CETR will be available to deliverer and receiver and other parties named on the confirmation. The report lists all previously affirmed confirmations.

DTC eligible issues may be settled using improved Authorization/ Exception procedures. These procedures will allow for the authorization of unaffirmed/unmatched trades and the authorization of trades on settlement date and beyond. Global authorization, with or without exception, can be utilized for trades affirmed or trades submitted (and unaffirmed) prior to close of business two days prior to settlement (S-2). These trades appear on the Cumulative Eligible Trade Report or the T+4 Unaffirmed Report, and provide a stable base for Global authorization. Global Authorization/Exception of affirmed trades will be available on the day prior to settlement (S-1) and until 11:00 a.m. on settlement date (S). Global authorization on settlement date is being added as a "fail safe" should a Participant be unable to globally authorize trades by the evening of S-1. Trades affirmed or submitted on S-1 or beyond will require trade-for-trade authorization. Trade authorization on S-1, or after original DO cutoff on settlement date, (or days thereafter) will be submitted to DTC's night cycle. The T+5 reports will be modified to reflect unaffirmed/unmatched trades, trades for various settlement days, and will list all trades processed by the night cycle. Trades authorized prior to the original DO cutoff will be submitted immediately to DTC's dayside processor. Dayside trades will be reported on current deliver order outputs (e.g., Deliver/Receive, Dropped Delivery Reports).

III. Implementation Schedule

The tentative implementation schedule is as follows:

1. Standing Instructions Database (SID) Late '93

   Allows for the updating of SID and the notification of these updates to executing broker-dealers.

2. Electronic Mail Features — Late '93 through Early '94

Allows for the receipt and distribution of Notifications of Order Execution, Institution Instructions to broker-dealers and Institution Requests for Cancellation/Correction of trade input.

3. Interactive ID — Early '94

Allows for the interactive receipt of trade input and affirmations and the interactive distribution of confirmations and Eligible/Ineligible Trade Reports. It also supports the cancellation/correction of trade input by broker confirm number, and the cancellation of Institution Instructions by institution reference number.

4. Matching — Mid '94

Allows for interactive matching of trade input to Institution Instructions and the distribution of appropriate output reports.

5. Authorization/Exception and T+5 Reporting — Mid '94

Allows for the authorization/exception of unaffirmed/unmatched trades and for the authorization of trades on settlement date and thereafter.

****

Questions, comments and/or requests for additional information may be addressed to:

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The Depository Trust Company
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Business Systems Analyst
The Depository Trust Company
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New York, NY 10041
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Fax: (212) 898-1395

Institutional Delivery (ID) System

Functional Design Paper

For Enhanced, Interactive Capabilities

March 31, 1993

Table of Contents

* Paragraphs which appear in italics were included in the memorandum entitled "An Interactive Option for the Institutional Delivery System", and need not be re-read.

I. BACKGROUND

In 1990, DTC responded to the G-30 U.S. Working Committee's T+3 Brokers and Banks Subgroup request to analyze ID system activity. Based on this analysis and other information, the Subgroup distributed for comment by the G-30 U.S. Working Committee in November, 1990, a proposal for an enhanced ID system. In February 1991, an ID Focus Committee was established to review the November proposal. The Focus Committee consisted of broker-dealer, bank, and institutional users of ID, including representatives from the Securities Operations Division (SOD) of the Securities Industry Association (SIA), the Bank Depository User Group (BDUG), New York Clearing House (NYCH), the Investment Company Institute (ICI), and the Investment Counsel Association of America (ICAA). After several meetings, the Focus Committee endorsed the Subgroup's proposal in May 1991. Subsequent study by DTC suggested that Participants and other ID users would benefit from an even further enhanced ID system.

In January 1992, DTC published a memorandum entitled "An Interactive Option For The Institutional Delivery System," which proposed a new system with interactive options which would also unify the existing ID and International ID systems. In May 1992, a second ID Focus Committee was established to determine the specifications of the new system. This Focus Committee consisted of representatives of the same user community as above, as well as a member representing the Industry Standardization for Institutional Trade Communication (ISITC) group. Meeting twice monthly, the Focus Committee was able to review all new requirements by the middle of October. This document reflects the deliberations of the ID Focus Committee, as well as information obtained by DTC from various users subsequently.

II. INTRODUCTION

The January 1992 proposal suggested six new functions for the Interactive system:

1. Notification of order execution.
2. Allocation processing (since renamed Institution Instructions).
3. Standing instructions database.
4. Advice of correction (since renamed Institution Request for Cancellation/ Correction).
5. Matching.
6. Enhanced Authorization processing.

This document begins with a System Overview. A detailed discussion of the Standing Instructions Database (SID) follows, to impart an understanding of what the database is, and how it will interact with new and existing service features. The new service features, including input descriptions, are then described. Finally, system outputs are listed, and system considerations for users of existing format file transmissions are provided.

The existing systems will be incorporated into the new system, and the reader is therefore assumed to have a good understanding of ID and IID, descriptions of which are available on request in separate documents. DTC's objective is to maintain both existing system features as well as offer new options. This will allow users a transition period to move from existing ID and IID use to the new system. Allowing for this transition explains some of the complexity of the functions described herein. For example, DTC will allow users to communicate using existing ID and IID CCF/CCFII formats, as well as a unified, enhanced format. Until all users have moved to the enhanced format, some limitations on data elements, particularly for DTC ineligible securities, will apply for those using existing formats.

The new system is being designed to meet the needs of most securities instruments. DTC plans to introduce similar confirmation capabilities for derivative instruments, foreign exchange and other financial instruments in the coming years. Not all new systems features will be implemented at the same time; rather, they will be installed in phases, as needed and appropriate (refer to tentative implementation schedule below). However, to align broker-dealer input with Institution Instructions for matching, the ID day will be modified in early 1994. Whereas today affirmation cutoff is at 7:30pm, and trade input at 1:45am, both will end at midnight. Therefore, the availability of affirmation-related end-of-day reports will move from midnight to approximately 4:00am, and the availability of confirmation-related end-of-day reports will move up from 6:00am to approximately 4:00am.

Implementation Schedule

The tentative implementation schedule is as follows:

1. *Standing Instructions Database (SID)* — *Late '93*

   Allows for the updating of SID and the notification of these updates to executing broker-dealers.

2. *Electronic Mail Features* — *Late '93 through Early '94*

   Allows for the receipt and distribution of Notifications of Order Execution, Institution Instructions to broker-dealers and Institution Requests for Cancellation/Correction of trade input.

3. *Interactive ID* — *Early '94*

   Allows for the interactive receipt of trade input and affirmations and the interactive distribution of confirmations and Eligible/Ineligible Trade Reports. It also supports the cancellation/correction of trade input by broker confirm number, and the cancellation of Institution Instructions by institution reference number.

4. *Matching* — *Mid '94*

   Allows for interactive matching of trade input to Institution Instructions and the distribution of appropriate output reports.

5. *Authorization/Exception and T+5 Reporting* — *Mid '94*

   Allows for the authorization/exception of unaffirmed/unmatched trades and for the authorization of trades on settlement date and thereafter.

III. SYSTEM OVERVIEW

The following section briefly describes the new, interactive ID system. All new service features will be optional, although current processing schedules will change for all users at approximately the end of the first quarter of 1994.

The new system provides for a Standing Instructions Database (SID) that will act as a central repository for all customer/account and settlement information. SID will allow institutions to enter customer/account related data (inclusive of interested parties, the agent internal account number of the customer and the agent number). It will also allow broker-dealers to "link" their broker internal account numbers to the specific customers/accounts established by the institution. And it will allow agents, clearing agents, executing broker-dealers and clearing brokers to enter settlement information for a depository or country and security type. As appropriate, the broker-dealer would be notified of the establishment of this information and any subsequent changes or deletions.

Since DTC will maintain the database and append the necessary information to Broker Trade Input, SID will enable broker-dealers to eliminate internal processing of customer account information. SID will also ensure the most timely updating of this information: once entered, updates will apply to all trades received thereafter, eliminating any time lags due to broker-dealer processing of the data. Once an account has been established on SID, normal daily processing activities, described below, can take full advantage of this information.

The first activity to take place is the broker-dealer's execution of a trade on behalf of the institution. The broker-dealer will be able to communicate the details of the execution via the Notification of Order Execution (NOE) function. The broker-dealer can provide the notification: 1) for each execution of a trade; 2) once the block order has been filled; and/or 3) at end of day, if the block has not been completely executed. The exact use of Notification of Order Execution will be flexible, thereby allowing it to be tailored to the requirements of both broker-dealer and institution.

The institution would generally use the Notification of Order Execution to prime the allocation process. The system will also allow the institution to reject the NOE. The reason for rejection of the NOE would be included in the rejection message (e.g., Don't Know, etc.).

Assuming acceptance of the Notification of Order Execution, the institution could then prepare Institution Instructions. Institution Instructions contain individual trades, account allocations of block trades, and step out broker information. Allocations and step out information are needed by the executing broker-dealer prior to entering trade input to DTC. The Institution Instructions would be forwarded to the broker-dealer and, if the institution and broker-dealer have elected to match, the data would be retained by DTC for that purpose. The Institution Instructions provided to the broker-dealer would be augmented by the broker internal account number, if resident on SID.

Upon receipt of the Institution Instructions, the executing broker-dealer (or broker-dealers if this were a step out trade) would ensure their accuracy. If the information did not agree to the execution, the broker-dealer would submit an Institution Instruction Cancel/Correction including the reason for rejection (e.g., wrong CUSIP, over allocated, etc.).

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For broker-dealers and institutions electing to match, DTC would compare Broker Trade Input to Institution Instructions. If a match is found and the institution has affirmation authority, a matched affirmed confirmation is generated; otherwise, a matched confirmation is produced. The matched affirmed confirmation takes the place of both the confirmation and eligible/ineligible/CNS eligible trade report and can be provided to all parties named on the confirmation. The matched confirmation would be used to notify the affirming party that the institution agrees with the details of the trade. The affirming party could then affirm the trade, and a matched affirmed confirmation would be produced.

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will be submitted to DTC's night cycle. The T+5 reports will be modified to reflect unaffirmed/unmatched trades, trades for various settlement days, and will list all trades processed by the night cycle. Trades authorized prior to the original DO cutoff will be submitted immediately to DTC's dayside processor. Dayside trades will be reported on current deliver order outputs (e.g., Deliver/Receive, Dropped Delivery Reports).

The following sections describe the system in more detail. When reading this document, specific emphasis should be placed on the SID, Matching, and System Considerations sections. These sections describe new services or service changes that, generally speaking, will have the most significant impact on your operations and systems. Additionally, to facilitate the reading of this document, a glossary of terms immediately follows.

IV. GLOSSARY

Readers may find some or all of this glossary helpful to their understanding of the following document.

Affirmation	A)Traditional confirmation/affirmation: Manual or automatic comparison by an institution or its agent of trade details input by the executing broker-dealer, and acknowledgement back to the ID system of its agreement. B) Matching: Required when an institution has opted for matching, but does not have the authority to affirm. Affirmations by the customer or its agent indicate agreement for the trade to settle.
Affirmed Confirmation	Affirmed confirmations (whether resulting from affirmation or matching) are notifications of scheduled settlement for DTC-eligible securities or settlement instructions for custodians and broker-dealers settling outside DTC. Affirmed Confirmations replace the eligible, ineligible and CNS eligible trade reports in the current ID system and deliver/receive instructions in the current IID system.
Agent Name / Number	The name and ID number of the financial institution which settles trades on behalf of the institution.
Authorization	Process by which the delivering party (a DTC Participant) indicates DTC-eligible ID trades that should be automatically released into DTC's settlement system.

Block Transaction	**A transaction executed on behalf of multiple customers/accounts of an institution.**
Broker List	Broker lists identify all executing broker-dealers that may act on behalf of an institution. These lists may be distinguished by geographic considerations or by any other convention established by the institution.
Broker-dealer Name/Number	The name and ID number of the broker-dealer that executed the trade.
Clearing Bank or Broker	An entity that settles on behalf of executing brokers or correspondent banks.
Confirmation	A legally binding contract produced by DTC to all parties (broker-dealer, agent, institution, customer and interested party) giving details of a securities transaction based upon Broker Trade Input.
Customer	An owner of securities (e.g., plan sponsor) which has given discretionary investment authority to an investment advisor (institution). May be identified in SID in addition to other interested parties to receive copies of ID confirmations. (See also *interested party*.)
Customer Allocations	Method by which institutions provide broker-dealers with the individual customer/account details. (See also *block transaction*.)

Eligibility	Status that indicates if an ID trade can be automatically settled at DTC or not. Security eligibility is determined by CUSIP. Additionally, the broker-dealer, institution and agent named on the trade are checked for DTC eligibility. A trade confirmation marked as "ineligible" at the time of trade input is re-checked for eligibility at affirmation, and may change status at that time.
Institution	An investment manager which buys and sells securities through an executing broker-dealer.
Institution Instructions	Institution Instructions are entered by institutions: 1) to provide customer allocations to broker-dealers for single and block trades; and 2) to provide specific trade details to be matched to corresponding details entered by broker-dealers on trade input.
Interested Party	Any party designated by the Institution to receive a copy of the trade confirmation (See also *customer*).
Matched Affirmed Confirmation	See *affirmed confirmation*.
Matching (two-sided broker-dealer and institution input)	A new service feature enabling the systemic comparison of specified fields on Broker Trade Input and institution instructions.
Material Field	Fields on the institution instructions and Broker Trade Input that are required for matching. (See also *matching*.)

Non-Material Fields	Those fields that broker-dealers may enter on trade input that are not required for matching (e.g., role, market).
Notification of Order Execution (NOE)	New service feature enabling broker-dealers to electronically communicate the execution details of a trade to institutions.
Settlement Model	Lists of settlement relationships established by broker-dealers and agents to designate their clearing arrangements according to settlement location (country or depository) and security type. Clearing entities (i.e., clearing agents and brokers) establish settlement models designating sub-custodians, branches or depositories and depository accounts to be used for settlement according to settlement location, security type and split indicator. (See also *split indicator*.)
Settlement (Deliver/Receive) Instructions	Instructions that detail the securities and money-related movements that must occur in order for a securities transaction to be settled. (See also *affirmed confirmation*.)
Split Indicator	An indicator on trade input signifying that cash settlement for the trade is taking place in a currency other than the currency of the country in which security settlement is taking place, and that cash and security settlement are in different locations.

Standard Letter of Agreement	An agreement between an institution and an ID agent that places the responsibility for trade acknowledgement (affirmation or matching) with the institution. In doing so, the ID agent can rely upon the eligible/ineligible trade reports as its trade authorization from the institution.
Standing Settlement Instructions	Generic securities and money settlement instructions maintained on SID for institutions, broker-dealers, clearing brokers, agents and clearing agents.
Step-Out Trade	A trade where the institution instructs the executing broker-dealer to "step-out" (or allot) a portion of the trade to other broker-dealers (the step-out brokers) determined by the institution. The institution generally allots these trades to satisfy soft-dollar arrangements it has with the step-out brokers.
Sub-Custodian	The bank or broker that acts as settlement agent on behalf of the agent or clearing agent, or clearing broker in the local market.
Tolerance Parameters for Settlement	Used in conjunction with matching, tolerance parameters establish an optional acceptable difference (tolerance level) that may occur between the settlement amounts submitted by the broker-dealer and the institution while still allowing matching to occur.

V. STANDING INSTRUCTIONS DATABASE (SID)

The new Standing Instructions Database (SID) will serve as a central repository for all customer/account and settlement information currently maintained by institutions, executing broker-dealers, clearing brokers, agents and clearing agents, and will eliminate the need for broker-dealers and institutions to include this information on trade input and Institution Instructions. The use of SID will be optional for all ID users; although, for matching, there are certain SID requirements (i.e., the institution and the broker-dealer must indicate their willingness to match on SID). No other service feature requires SID; but, SID information, once entered, would be extracted and appended to outputs, including overlaying institution information on Broker Trade Input which does not coincide with information established by institutions on SID.

The following SID topics are delineated in this section of the document: 1) the responsibilities for updating SID according to accountable party (institution, broker-dealer, agent, etc.); 2) a procedure for adding, updating or deleting information on SID; 3) SID Notification; and 4) Communications.

1. Responsibilities for Entering and Maintaining Information on SID

A. The Institution's Responsibilities for Updating SID

Institutions are responsible for entering: 1) institution-level information (e.g., processing indicators and indicators designating certain business arrangements of the institution); 2) the institution's customer (or account) information; 3) the institution's customer's (or account's) agent information; 4) affirming party information; 5) interested party information; 6) broker lists; and 7) settlement amount tolerances. Each of these are described below.

1. **Institution's Information**
   The following is a list of information that is maintained on SID at the institution-level:
   a. Indicator (y/n) - Indicates if the institution elects to match and is capable of receiving output associated with matching.
   b. Indicator (y/n) - Should non-ID customer name be disclosed on confirmations?
   c. Indicator (y/n) - Should broker-mailed confirmations to institutions on behalf of customers be suppressed?
   d. Indicator (y/n) - Should broker-mailed monthly statements to institutions on behalf of customers be suppressed?

e. Indicator (y/n) - Has Standard Letter of Agreement between agent and institution on behalf of the customer been signed?

(Note: Indicators 1b-1e are established at the institution level, and may be overridden by the institution at the customer/account level.)

2. **Institution's Customer/Account information**

For each of the institution's customers/accounts, the following information would be entered on SID:

a. Institution internal account number of customer
b. Institution internal account name of customer
c. ID number
d. U.S. tax identification number

3. **Institution's Customer's/Account's Agent information**

The institution would enter the following agent information for each of its customers or accounts:

a. ID agent number
b. Agent internal account number of customer/account
c. Agent internal account Name of customer/account
d. ID model number of ID agent - The settlement model of the agent which would be followed for the particular customer/account of the institution. This settlement model determines the appropriate clearing agent of the customer's custodian (ID agent), when more than one exists. For example, the custodian might use one clearing agent for DTC, another for the FED, and a third for international settlement.
e. Indicator (y/n) - Should broker-mailed confirmations to agent be suppressed?
f. Indicator (y/n) - Should monthly broker-mailed statements to agent be suppressed?
g. Indicator (y/n) - Should confirmations be released to agent?

4. **Affirming Party Information**

For each customer/account, the institution would indicate the designated affirming party for that particular customer/account by entering the following:

a. Affirming party type - institution, agent, customer or interested party
b. Affirming party ID number - Required only when the interested party is the designated affirming party.

5. **Institution's Customer's/Account's Interested Party Information**

If the enhanced trade output format is received, the institution may receive information for a customer and two interested parties. All three could be received for domestic confirmations; however, only one interested party field could be received for international confirmations, since the sub-custodians could occupy two interested party fields. The following information could be provided for each customer and/or interested party:

a. ID interested party number
b. Interested party account number
c. Interested party account name

6. **Institution's Broker Lists**

Institutions will have the ability to establish broker lists. Broker lists identify broker-dealers that may act as executing broker-dealers on behalf of a particular customer/account. Broker lists may be distinguished by geographical considerations (for example, east coast broker-dealers vs. west coast broker-dealers, domestic broker-dealers vs. international broker-dealers) or by any other convention established by the institution. Broker lists may also be used by institutions to indicate if a broker-dealer should be notified when an account is opened. This is discussed more fully on page 19, "SID Notification."

7. **Institution Instructions for Settlement Amount Tolerances by Currency**

If the institution has elected to match Institution Instructions to Broker Trade Input, and would like to establish tolerances for settlement amount so that an exact match on this field is not required in order to generate a matched or matched affirmed confirmation, the following information must be entered for each currency:

a. Currency code
b. Tolerance amount per trade, expressed in the appropriate currency (e.g., $50.00 per trade in USD); or tolerance amount as it relates to

total settlement amount, expressed in the appropriate currency (e.g., $10.00 per $100,000 of total settlement amount in USD).

This information would be established for all customers/accounts of the institution and, if necessary, could be modified at the customer/account level.

B. The Executing Broker-Dealer's Responsibilities for Updating SID

At the executing broker-dealer level, the match indicator should be set to "y(es)", if the executing broker-dealer elects to match trade input to Institution Instructions. At the customer/account level, the executing broker-dealer would then enter a broker internal account number and link it to a corresponding institution internal account number. This would allow for the extraction of information entered by the institution from SID in lieu of requiring that the broker-dealer enter all information on trade input.

The executing broker-dealer would also enter settlement models, designating which clearing brokers should be used for settlement according to location (depository or country) and security type. To establish a settlement model, the executing broker-dealer would enter the following information for each model:

1. Settlement model number - The executing broker-dealer would assign a model number to each model established.
2. Settlement location - Codes specifying countries or depositories to be used for trade settlement. U.S. depositories include DTC, MSTC, Philadep, PTC and the FED. International depositories include Euroclear and Cedel.
3. Security types - Codes identifying the security being traded (e.g., equities, corporates, eurobonds, etc.). For each country code established, the executing broker-dealer would enter a list of security types valid for that country code. The default for this field would be "all," indicating that for a particular country, all security types would be settled by a designated clearing broker. (Security types are not entered for the depositories named above.)
4. Clearing broker number - The clearing broker number that should be used to settle designated security types for a particular model number and country code combination, or one of the depositories listed above.
5. The executing broker-dealer's account number at the specified clearing broker.
6. The executing broker-dealer's account name at the specified clearing broker.
7. The clearing broker's settlement model number - The model to be followed at the clearing broker, which identifies the sub-custodian, branch or depository account the clearing broker uses according to settlement location (country or depository), security type and split indicator.

C. **The Clearing Broker's Responsibilities for Updating SID**

Clearing brokers are responsible for entering settlement models specifying which sub-custodians, branches or depositories and depository accounts should be used based upon settlement location, security type and split indicator. Clearing brokers would enter the following information for each settlement model:

1. Model number - A number the clearing broker assigns to each settlement model it establishes.
2. Settlement location - Codes specifying countries or depositories to be used for trade settlement. U.S. depositories include DTC, MSTC, Philadep, PTC and the FED. International depositories include Euroclear and Cedel.
3. Security types - For each country code established, the clearing broker would enter a list of all security types valid for that country code, or "all," signifying that all security types are valid for settlement by a particular sub-custodian or branch.
4. Sub-custodian/branch number or depository identifier.
5. Account number - The clearing broker's account number at the sub-custodian, branch or depository.
6. Account name - The clearing broker's account name at the sub-custodian, branch or depository.
7. Settlement instructions - Comments that appear on Settlement Instructions, e.g. "Deliver to window 3 on 4th floor."
8. Split Currency Settlement Indicator (y/n) - If the split currency settlement indicator is set to "y (es)," that indicates cash settlement for the trade is taking place in a currency other than the currency of the country in which security settlement is taking place, and that cash and security settlement are in different locations. The clearing broker would then enter the following additional information:
    a. Currency code
    b. Currency bank number
    c. Clearing broker's account number at currency bank
    d. Clearing broker's account name at currency bank
    e. Settlement instructions (free-form text)

D. **The ID Agent's Responsibilities for Updating SID**

ID agents are responsible for entering settlement models designating which clearing agents should be used for settlement based upon location (country or depository) and

security type. Information ID agents would enter on settlement models is the same information that executing broker-dealers would enter on their settlement models (Refer to page 16, "The Executing Broker-Dealer's Responsibilities for Updating SID," and substitute the words ID agent and clearing agent for the words executing broker-dealer and clearing broker.)

E. The Clearing Agent's Responsibilities for Updating SID

Clearing agents are responsible for entering settlement models specifying which sub-custodians, branches, or depositories and depository accounts should be used based upon settlement location (country or depository), security type, and split indicator (when applicable). This is the same information clearing brokers are responsible for entering on SID. (Refer to page 17, "The Clearing Broker's Responsibilities for Updating SID," and substitute the words clearing agent for clearing broker.)

Note: Executing broker-dealers and ID agents could have DTC enter their clearing information should their clearers not be ID users.

2. Updating SID (Adding, Changing or Deleting Information on the Database)

All parties responsible for entering information on SID will have the ability to enter a SID change with an effective date specifying when the addition, change or deletion should be put into effect. Effective date changes fall into two categories: trade date-related changes and settlement date-related changes.

For trade date-related changes, the trade date on input would be compared to the effective date on the SID change instruction, and the input would be processed accordingly. Trade date-related changes include: 1) changes made to institution information (e.g., customer information, interested party information and affirming party information, provided the affirming party is not the ID agent); and 2) changes made to executing broker-dealer information at the customer/account level (e.g., broker internal account number).

For settlement date-related changes, the settlement date on the input would be compared to the effective date on the SID change instruction and the input would be processed accordingly. Settlement date-related changes include: 1) ID agent changes; 2) clearing agent changes; 3) executing broker-dealer changes relating to settlement information (i.e., changes made to settlement models); 4) clearing broker changes; and 5) affirming party information, if the affirming party is the agent.

3. SID Notification

A. When the institution adds, changes or deletes information linked to a customer/account, the following SID notifications will be generated:

1. If PTS or PC Dial-in is used, either a notification confirming the update of the SID change would be generated, or an error message would be produced. If CCF or CCFII is used, only error messages would be returned.

2. Notifications would be generated to executing brokers-dealers. In order for a broker-dealer to receive notification, the institution must indicate on SID whether it wishes to notify the broker-dealer immediately upon opening an account, or the first time the institution enters Institution Instructions for that broker-dealer.

   Similarly, the executing broker-dealer must also indicate on SID when it would like to receive account and settlement information. The combination of these two indicators controls the distribution of notifications.

B. When an ID agent or clearing agent adds, deletes or changes its settlement model on SID, notifications of the SID change will be distributed to all executing broker-dealers, whether or not there is an existing relationship to a customer/account being serviced by the ID agent or clearing agent. This information is considered non-proprietary. This notification will contain the information being changed and the agent's (or clearing agent's) settlement model number. The ID agent's and clearing agent's settlement model number, in conjunction with institution/customer information containing the settlement model number previously distributed, enables the broker-dealer to input the changes to its internal database.

4. Communications

Input	Available Input Media
Institution Input of SID Additions, Changes and Deletions	PTS, PC Dial-in, CCF, CCFII
Executing Broker-Dealer, Clearing Broker-Dealer, Agent and Clearing Agent Input of SID Additions, Changes and Deletions	PTS, PC Dial-in

Output	Available Output Media
Input Error Messages (all parties)	PTS, PC Dial-in, CCF, CCFII
Additions, Changes and Deletions to Executing Broker-Dealers	PTS, PC Dial-in, CCF, CCFII
Report of SID Database for Executing Broker-Dealers and Institutions (on a per request basis)	CCF, CCFII
On-line SID Inquiry	PTS, PC Dial-in

VI. NOTIFICATION OF ORDER EXECUTION

Notifications of Order Execution will provide broker-dealers with an automated, electronic method of notifying institutions that their orders have been executed. Broker-dealers would enter execution details into the ID system, and a Notification of Order Execution (NOE) would then be generated by DTC for the institution. The institution could use the notification as input to its portfolio management system (priming it for an automated allocation process).

Institutions will have the ability to "DK" ("Don't Know") an NOE by submitting an Institution Rejection of NOE, or enter a Request for NOE Correction. Additionally, broker-dealers will have the ability to cancel and optionally resubmit previously submitted NOEs. If an NOE is cancelled, the broker-dealer could, at its discretion, link the cancellation and a potential resubmission to the previously submitted notification of order execution, by broker reference number.

Logical field edits will be performed on submitted data; and DTC will notify broker-dealers of Notifications of Order Executions sent to institutions that elected not to receive them. Both edit errors and notifications of non-receipt of message would be communicated using a Notification of Order Execution Error transmission.

1. Communications

Input	Available Input Media
NOEs (including cancellations)	PC Dial-in, CCF, CCFII and MDH
Institution Rejections and Requests for Correction of NOEs	PC Dial-in, CCF, and CCFII

Output	Available Output Media
NOEs to Institutions (including cancellations)	PC Dial-in, CCF, and CCFII
NOE Errors to Broker-Dealers	PC Dial-in, CCF, CCFII and MDH
Institution Rejections and Requests for Correction of NOEs to Broker-Dealers	PC Dial-in, CCF, CCFII and MDH

VII. INSTITUTION INSTRUCTIONS

Enhanced ID will provide an Institution Instructions facility which will enable institutions to enter institution to broker-dealer instructions and Institution Instructions for matching to Broker Trade Input. To uniquely identify Institution Instructions, institutions will be required to assign a reference number to all instructions entered. Institutions will have the ability to cancel previously submitted Institution Instructions by entering the institution reference number of the instructions to be cancelled. Additionally, broker-dealers will have the ability to request cancellations/corrections of Institution Instructions.

1. Institution Instructions to Broker-Dealers

Institution Instructions to broker-dealers would either be used to convey:

a. Allocation instructions for block trades.

Block trades are transactions executed on behalf of multiple customers/accounts of the institution. Institutions then provide customer allocations, identifying the individual, customer/account details comprising the block.

b. Instructions for single trades, identifying the customer/account on whose behalf the trade was executed.

c. Allocation instructions and deliver/receive instructions for step-out trades.
Step-out trades occur when an institution executes a trade with the executing broker-dealer and then instructs the executing broker-dealer to "step out" (or allot) a portion of the trade to other designated broker-dealers (the step-out broker-dealers).

The institution would enter allocation instructions for the executing broker-dealer and the step-out broker-dealer (the step-out broker-dealer instruction would also contain a reference to the executing broker-dealer). The executing broker-dealer would receive notification to deliver (via CNS) to the step-out broker-dealer. The step-out broker would receive allocation instructions as well as a notification to expect receipt from the executing broker-dealer.

2. Institution Instructions for Matching to Broker Trade Input

Institutions will have the ability to enter Institution Instructions to be matched on specific fields to Broker Trade Input. Upon matching, if the institution is the affirming party to the trade, matched and automatically affirmed confirmations would be generated. If the institution were not the affirming party, matched confirmations would be generated which would require

affirmation by the designated affirming party. Matching is described in detail, beginning on page 26.

3. Communications

Input	Available Input Media
Institution Instructions	PC Dial-in, CCF, and CCFII
Broker-Dealer Requests for Cancellation or Correction of Institution Instructions	PC Dial-in, CCF, CCFII and MDH

Output	Available Output Media
Institution Instructions to Broker-Dealers	PC Dial-in, CCF, CCFII and MDH
Edit Errors (including Notifications of Non-Receipt of Instruction and Broker-Dealer Requests for Cancellation or Correction)	PC Dial-in, CCF and CCFII

VIII. BROKER TRADE INPUT

In order to ease the transition of ID users from the current system to the enhanced ID system, broker-dealers may submit trade input in either existing domestic or international formats or in a new, unified combined domestic and international format. Each of these input formats are described below, including an explanation of how they can be used in conjunction with new service features.

1. Existing Domestic Trade Input Format

   Broker-dealers may continue to enter trade input in the existing domestic format, which will remain unaltered. This input may be used for confirmation/affirmation processing, and will also allow broker-dealers to match trade input to Institution Instructions for trades eligible for DTC settlement (since settlement instructions for these trades can be retrieved from SID). Because existing trade input does not contain certain new fields required to determine settlement instructions for DTC-ineligible trades, matching cannot be performed when existing trade input is entered for these trades.

   Also, because existing trade input does not have a "correction" record type and a field for entering the broker confirm number of the confirmation to be corrected or cancelled, new correction/cancellation features provided by the enhanced ID system cannot be used.

2. Existing International Trade Input Format

   Existing international trade input will continue to be provided and will have the same processing capabilities as existing domestic trade input. (Note: Matching cannot be performed if existing international trade input is used since all international trades are DTC-ineligible.)

3. Enhanced Unified Trade Input Format

   In order to allow ID users to take full advantage of new service features without requiring extensive modifications to existing inputs, a unified enhanced domestic and international trade input will be provided. A few additional fields required to use new service features will be added to the "filler" area of the existing machine-readable trade input formats. These fields include:

   a. Settlement location - Codes specifying countries or depositories to be used for trade settlement. U.S. depositories include DTC, MSTC, Philadep, PTC and the FED. International depositories include Euroclear and Cedel.
   b. New list of security types - Additional security types which identify the security being traded.
   c. Expanded record type - A record type for "corrected" input.

d. Broker confirm number of the confirmation to be cancelled/corrected - The broker confirm number assigned by the broker-dealer to its original trade input, which is to be cancelled/corrected.

e. State, Local and Province tax field - Currently provided only for domestic trades, this field will now be provided for international trades.

f. Split currency settlement indicator (for international trades only)

g. Amortized/Accreted Factor

By including settlement location, expanded security types, and the split currency settlement indicator (for international trades) enhanced trade input could be used for matching DTC-ineligible securities, and for extracting settlement information from SID. The expanded record type and the broker confirm number of the confirmation to be corrected/cancelled will allow broker-dealers to use the new correction and cancellation by broker confirm number features. Use of this format in conjunction with interactive submission will allow timely and meaningful settlement instructions to be made available for security settlement outside DTC on a same-day or next-day basis.

4. Communications

Input	Available Input Media
Broker Trade Input	PTS*, PC Dial-in*, PC Workstation**, CCF, CCFII, and MDH
Output	**Available Output Media**
Trade Input Errors	PTS*, PC Dial-in*, PC Workstation**, CCF, CCFII, and MDH

* PTS and PC Dial-in will continue to be supported for submitters of existing domestic trade input until all broker-dealers have converted to the PC Workstation. This input will be collected throughout the day and processed just prior to midnight.

** The PC Workstation is a PC data capture and transmission function utilizing local intelligence and databases to minimize data entry. It will use the enhanced unified format only.

IX. MATCHING

The Matching feature will allow specific fields on Broker Trade Input to be matched to corresponding key fields provided on Institution Instructions. In order for matching to take place, both the institution and the broker-dealer must elect to participate in matching. Institutions and broker-dealers will indicate their willingness to match by updating the appropriate indicators on the Standing Instructions Database (SID). Additionally, enhanced trade input must be submitted to match DTC-ineligible trades. If existing trade inputs are submitted for ineligible trades, traditional confirmation/affirmation processing will automatically result.

If the designated fields on the two inputs match, one of the following will occur: 1) if the institution is the designated affirming party, a "matched affirmed" confirmation will be generated (this would supplant the affirmation process); or 2) if the institution is not the designated affirming party, a "matched" confirmation will be generated which will require affirmation by the designated affirming party. Matched affirmed and matched confirmations would be produced throughout the day and would be retrievable interactively or once a day, according to the preference of the receiver. Matched affirmed confirmations constitute the trades currently reported on the Eligible/Ineligible/CNS Trade Reports or IID Settlement Instructions.

This section of the document provides: 1) Matching Criteria; 2) The Establishment of Tolerance Parameters for Settlement Amount; 3) Inputs and Outputs associated with Matching; 4) Cancellation of Trade Input and Institution Instructions; 5) Correction of Trade Input; and 6) Communications.

1. Matching Criteria

The following are the required fields used for matching DTC eligible trades:

a. Institution ID number
b. Broker-Dealer ID number
c. Agent ID number
d. Agent internal account number
e. Security number
f. Buy/Sell code
g. Trade date
h. Settlement date
i. Price or yield
j. Shares/Face value
k. Settlement amount (within tolerance parameters)

Additionally, the following fields must be entered on Institution Instructions for matching DTC-ineligible trades and must exactly match corresponding information on Broker Trade Input:

a. Settlement location (country or depository)
b. Security type
c. Split indicator

Institutions may enter the following optional fields on Institution Instructions, which comprise the settlement amount:

a. Principal amount (shares/face value x price)
b. Commission
c. Interest
d. SEC Fees (for domestic trades only)
e. Registration/Shipping fees (for international trades only)
f. Country/Federal taxes
g. State, local and province taxes
h. Other charges

2. The Establishment of Tolerance Parameters for Settlement Amount

An exact match on settlement amount is not required in order for matching to take place. The institution will have the ability to enter tolerance parameters for settlement amount on SID, by settlement currency, in one of two ways.

First, the institution may enter an absolute tolerance amount, specifying that the settlement amount submitted by the broker-dealer, in a specific currency, may not vary more than a specific amount per trade, regardless of the total settlement amount. For example, using U.S. dollars, the institution might enter a $50.00 absolute tolerance amount, indicating that the settlement amount submitted by the broker-dealer must never deviate from the settlement amount submitted by the institution by more than $50.00.

Second, the institution may express the tolerance amount for a given currency as it relates to the total settlement amount for trades in that currency. For example, the institution might enter tolerance parameters indicating that, for each $ 100,000.00 of the total settlement amount, the settlement amount submitted by the broker-dealer must not deviate from the settlement amount submitted by the institution by more than $10.00. (Note: Settlement amounts falling between established tolerance parameters would be prorated. For example, for a trade with a settlement amount of $250,000.00, a tolerance of $25.00 would be established.) In either case, the broker-dealer settlement amount would be used for settlement instructions.

To aid in the resolution of the discrepancy in net settlement amount, a Potential Match Report would be generated if all mandatory fields matched with the exception of the settlement amount. The Potential Matched Report would contain:

1. The different net settlement amounts submitted by the institution and broker-dealer.
2. Any differences for any of the eight fields comprising settlement amount which were submitted optionally by the institution.
3. The ID control number assigned by DTC to Broker Trade Input.
4. The broker confirmation number assigned by the broker-dealer to trade input.
5. The institution reference number submitted by the institution on Institution Instructions.

The following actions could then be taken:

1. The institution could affirm the broker-dealer's trade input by using the DTC control number.
2. The institution could cancel and resubmit its Institution Instructions to effect a match to broker-dealer input.
3. The broker-dealer could cancel and resubmit its trade input to effect a match to Institution Instructions.
4. Either party (or both parties) could cancel their input.

3. Inputs and Outputs Associated with Matching

Broker-dealers will have the ability to submit trade input in existing domestic format for trades which are DTC-eligible, since settlement instructions for these trades can be retrieved from SID. For DTC-ineligible trades, the unified enhanced trade input must be used.

Upon matching Institution Instructions to Broker Trade Input, a matched affirmed confirmation will be generated if the institution is the designated affirming party. If the institution is not the designated affirming party, a matched confirmation requiring affirmation by the designated affirming party will be generated. A matched affirmed confirmation takes the place of the current ID Eligible and Ineligible Trade Reports, the CNS Eligible Trade Report and ID receive and deliver instructions. An indicator on SID will designate who the authorized affirming party is for a given customer/account (i.e., the institution, the customer, the agent or an interested party). Matched Confirmations could be used to replace institution notification to the affirming party, indicating that the details of the trade have been agreed to by the broker-dealer and the institution.

At end of day, an Unmatched Report would be generated. This report would be cumulative, listing all Broker Trade Input and Institution Instructions which were not matched by end of day. (This would include the "potential" matches, described above, which were reported throughout the day, if a match did not take place by end of day.) Unmatched confirmations and unmatched Institution Instructions would also be generated at end of day.

4. Cancellation of Broker Trade Input and Institution Instructions

The enhanced ID system provides the ability for broker-dealers and institutions to cancel their input using the broker confirm number or the institution reference number submitted on original input.

Unified enhanced trade input must be used to cancel by broker confirm number. Broker-dealers submitting trade input in the existing formats will still have the ability to enter administrative cancellations and cancellations by DTC control number. (Administrative cancellations and cancellations by DTC control number cannot be submitted using enhanced input.)

Cancellations by broker confirm number may be performed unilaterally if trade input has not been matched affirmed or matched to Institution Instructions. The original unmatched confirmation would be made inactive; and a cancelled confirmation would be generated. If trade input has been matched affirmed or matched to Institution Instructions, a pending cancelled confirmation would be generated, which would require matching to cancelled Institution Instructions. Upon matching, cancelled matched confirmations would be generated and the original trade would be made inactive.

Institutions may cancel Institution Instructions unilaterally prior to matching by entering the institution reference number for the Institution Instructions to be cancelled. Once Institution Instructions have been matched affirmed (or matched) to broker-dealer input, the cancellation of Institution Instructions would require bilateral agreement. A cancellation of Institution Instructions containing the broker confirm number and the DTC control number of the confirmation to be cancelled would be generated. The broker-dealer could then enter a confirmation cancellation which would be matched to the cancelled Institution Instructions. Upon matching, a cancelled confirmation would be generated and the original confirmation would be made inactive.

a. DTC Eligible Securities

When a confirmation which has been previously authorized for settlement is made inactive, it is simultaneously de-authorized. Resubmitted trades, if entered, would be assigned new DTC control numbers which would require authorization. In those cases where bilateral agreement is required to cancel a confirmation, if agreement is not reached, two active confirmations could exist- the original confirmation and the resubmitted (corrected) confirmation, either or both of which could be authorized for settlement.

b. DTC Ineligible Securities

Users must take precautions that clearing brokers and clearing agents are notified of these cancellations and of any potential liabilities associated with them on a timely basis.

Note: The above procedures for bilateral cancellation of Broker Trade Input and institutional instructions for matched and matched affirmed trades will be included if it is determined that such processing is necessary and desired by the industry. At a minimum, pending cancellations and pending institutional instructions would be generated for cancellations for trades which have been matched or matched affirmed. These would serve as electronic mail advices only.

5. Corrections of Trade Input

The enhanced ID system will provide broker-dealers with the ability to unilaterally correct fields which are considered "non-material" on their input. Non-material fields include: account type, market, role, special instructions and data elements in the security description. (All fields on Institution Instructions are material fields as they affect the net settlement amount, settlement information or name a party to the trade.) If corrections to material fields are required, the broker-dealer would cancel its original trade input and resubmit corrected trade input. (Refer to section on cancellations above.)

The enhanced trade input must be used to correct trade input by broker confirm number. In order to effect corrections, broker-dealers would always enter corrected trade input inclusive of: 1) the broker confirmation number of the original trade; and 2) the broker confirmation number for the corrected trade. The broker confirmation number of the corrected trade could either be the same as the original confirmation number or different, depending on the broker-dealer's preference.

Corrected confirmations would then be generated. These would have a new DTC control number, but would have the same confirmation status that the original confirmation (i.e., unmatched, matched or matched affirmed) had at the time the correction was entered into ID by the broker-dealer. The corrected confirmations would include the original and corrected broker confirmation numbers and the DTC control numbers of the original and corrected confirmations. The original confirmation would be made inactive, and if the original confirmation had been authorized for settlement it would be de-authorized. (The correction confirmation could be authorized using the DTC control number of the corrected confirmation.)

6. **Communications**

Input	Available Input Media
Broker Trade Input, including corrections and cancellations	PTS*, PC Dial-in*, PC Workstation, CCF, CCFII and MDH
Institution Instructions, including cancellations	PC Dial-in, CCF and CCFII

Output	Available Output Media
Matched and Matched Affirmed Confirmations	PTS, PC Dial-in, CCF, CCFII and MDH
Potential Match Report and Unmatched Report	PTS and PC Dial-in
Unmatched Confirmations and Unmatched Institution Instructions	PTS, PC-Dial-in, CCF, CCFII and MDH

* PTS and PC Dial-in will continue to be supported for submitters of existing domestic trade input until all broker-dealers have converted to the PC Workstation. This input will be collected throughout the day and processed just prior to midnight.

X. CONFIRMATION/AFFIRMATION PROCESSING

Confirmation/affirmation processing, whereby Broker Trade Input results in the generation of a confirmation which must be affirmed by the institution or other designated affirming party, will continue to be supported by the enhanced ID system. The introduction of a unified enhanced trade input format results in the generation of a corresponding new confirmation output format. (If the enhanced input format is used, confirmations in existing output format would still be generated for users that are incapable of receiving enhanced output.)

Confirmations and affirmed confirmations would be produced throughout the day and would be retrievable interactively or once a day according to the preference of the receiver, regardless of whether existing or enhanced input is used. Affirmed confirmations constitute the trades currently reported on the Eligible/Ineligible Trade Report (ETR/ITR report), the CNS Eligible Trade Report or IID Settlement Instructions. At end of day, the following reports would be generated: 1) the Cumulative ETR; and 2) an expanded Unaffirmed Report (including T+2, T+3, T+4).

If enhanced trade input is used, broker-dealers will have the ability to use the new correction and cancellation features, permitting broker-dealers to correct or cancel confirmations using the broker confirmation number they assign to their input. This would eliminate the need for administrative cancellations and cancellations by control number.

This section of the document includes the following: 1) Trade Cancellations; 2) Trade Corrections; 3) Institution Request for Confirmation Correction/Cancellation; and 4) Communications.

1. Cancellation of Broker Trade Input (Confirmations)

The enhanced ID system provides the ability for broker-dealers to cancel their input using the broker confirm number submitted on their original input. Valid cancellations will result in the generation of cancellation confirmations and will systematically make the original confirmation inactive.

Enhanced trade input must be used to cancel by broker confirm number. Broker-dealers submitting trade input in the existing formats will still have the ability to enter administrative cancellations and cancellations by DTC control number. (The ability to enter administrative cancellations or cancellations by DTC control number will not be provided for enhanced input.)

Cancellations by broker confirm number may be performed unilaterally if the original confirmation has not been affirmed. The original unaffirmed confirmation would be made inactive; and a cancelled confirmation would be generated. If the original confirmation were affirmed, a pending cancelled confirm would be generated, which would require affirmation.

Upon affirmation, a cancelled confirmation would be generated and the original trade would be made inactive.

a. DTC Eligible Securities

When a confirmation which has been previously authorized for settlement is made inactive, it is simultaneously de-authorized. Resubmitted trades, if entered, would be assigned new DTC control numbers which would require authorization. In those cases where bilateral agreement is required to cancel a confirmation, if agreement is not reached, two active confirmations could exist- the original confirmation and the resubmitted (corrected) confirmation, either or both of which could be authorized for settlement.

b. DTC Ineligible Securities

Users must take precautions that clearing brokers and clearing agents are notified of these cancellations and of any potential liabilities associated with them on a timely basis.

Note: The above procedures for bilateral cancellation of Broker Trade Input and institutional instructions for affirmed trades will be included if it is determined that such processing is necessary and desired by the industry. At a minimum, pending cancellations and pending institutional instructions would be generated for cancellations for trades which have been affirmed. These would serve as electronic mail advices only.

2. Corrections of Broker Trade Input

The enhanced ID system will allow broker-dealers, using enhanced input, to unilaterally correct non-material fields on confirmations using the broker confirmation number which they assign to their trade input at point of entry. Non-material fields are those fields which do not affect net settlement amount, settlement information or result in a change to a party of the trade (e.g., account type, market, role).

In order to effect corrections, broker-dealers would always enter corrected trade input inclusive of: 1) the broker confirmation number of the original trade; and 2) the broker confirmation number for the corrected trade. The broker confirmation number of the corrected trade could either be the same as the original confirmation number or different, depending on the broker-dealer's preference.

Corrected confirmations would then be generated. These would have a new DTC control number but would have the same confirmation status as the original confirmation (i.e., unaffirmed or affirmed). The corrected confirmations would include the original and corrected broker confirmation numbers and the DTC control numbers of the original and corrected

confirmations. The original confirmation would be made inactive and, if the original confirmation had been authorized for settlement, it would be de-authorized. (The correction confirmation could be authorized using the DTC control number of the corrected confirmation.)

3. Institution Request for Correction/Cancellation

Institutions will have the ability to initiate the confirmation correction/cancellation process by submitting an Institution Request for Correction/Cancellation. This request could be entered for both unaffirmed and affirmed confirmations.

The institution would enter the DTC control number of the confirmation to be corrected/cancelled. For corrections, the institution would also enter the fields requiring correction. For cancellations, the institution would indicate the reason for the cancellation (e.g., "DK"). A Request for Confirmation Correction/Cancellation would then be generated for the broker-dealer. The broker-dealer, if in agreement with the institution's Request for Correction, would cancel its original trade input and resubmit corrected trade input. If in agreement with the institution's Request for Cancellation, the broker-dealer would cancel its original trade input.

4. Communications

Input	Available Input Media
Broker Trade Input, including corrections and cancellations	PTS*, PC Dial-in*, PC Workstation, CCF, CCFII and MDH
Affirmations	PTS, PC Dial-in, CCF, CCFII and MDH
Institution Requests for Confirmation Correction/Cancellation	PC Dial-in, CCF and CCFII

* PTS and PC Dial-in will continue to be supported for submitters of existing domestic trade input until all broker-dealers have converted to the PC Workstation. This input will be collected throughout the day and processed just prior to midnight.

Output	Available Output Media
Confirmations, Affirmed Confirmations and Affirm Error Reports	PTS, PC Dial-in, CCF, CCFII and MDH
Institution Requests for Confirmation Correction/ Cancellation to Broker-Dealers	PC Dial-in, CCF, CCFII and MDH

XI. AUTHORIZATION/EXCEPTION

Authorization/Exception of affirmed DTC-eligible trades on the day prior to settlement (S-1) will continue to be provided in the new system. In addition, the following will be permitted: 1) authorization/exception of trades will be extended to the morning of settlement date; 2) trade for trade authorization later on settlement date and beyond (through settlement date + 21) will be permitted; and 3) authorization of both affirmed and unaffirmed trades will be allowed. Each of these are discussed briefly below, followed by sections on T+5 Reporting and Communications.

1. Authorization/Exception on T+4

   Participants will continue to have the ability to provide DTC with: 1) a global authorization (without exceptions); 2) a global authorization and the DTC control numbers of any trades to be excepted (excluded) from automated settlement; or 3) the control numbers of all trades to be authorized (i.e., Trade-for-Trade Authorization). Authorized trades will continue to be processed during the night cycle prior to the settlement date for NDFS securities, and early in the morning on settlement date for SDFS securities. (SDFS does not have a night cycle.)

   Trades reported on the Cumulative Eligible Trade Report can be authorized globally or on a trade-for-trade basis. Trades entered, affirmed or matched affirmed after the production of the Cumulative Eligible Trade Report will require trade-for-trade authorization.

2. Authorization/Exception On The Morning Of Settlement Date

   The previously described procedure will also be available through 11am on settlement date. This will allow Participants that failed to provide DTC with global Authorization/Exception instructions on the evening of S-1 to process their deliveries in the most efficient manner on settlement date. Authorized trades will immediately be entered into DTC day-side settlement processing cycle.

3. Trade For Trade Authorization After 11am on Settlement Date Through S+21

   DTC will also allow Participants to authorize trades (via a DTC control number) after 11am on settlement date through S+21. Trades authorized prior to NDFS & SDFS cut-offs (which remain to be established) will be entered into DTC day-side processing immediately. Trades authorized after these cut-offs will be processed in the next night cycle for NDFS trades, or early morning of the next day for SDFS trades.

4. Unaffirmed/Unmatched Authorization/Exception Processing

   The same procedures described for affirmed or matched affirmed trades will be extended to unaffirmed and unmatched trades, including the previously described time-frames. Trades reported on the T+4 Unaffirmed Report or the Unmatched Report could be authorized globally or trade-for-trade. Trades entered after the production of these reports would require

trade-for-trade authorization. Authorized unaffirmed or unmatched trades that are subsequently affirmed will remain authorized.

5. Reporting

The T+5 Delivered/Not Delivered and Received/Not Received reports will continue to be available the morning of settlement date. The reports will be expanded to include unaffirmed and unmatched authorized trades that were delivered or were recycling at the time of report production, and trades for settlement dates other than the current settlement date that have been authorized and were either delivered or were recycling. Trades authorized intraday that have been completed intraday will be reported via the Unsolicited Message System (UMS).

6. Communications

Input	Available Input Media
Authorization/Exceptions	PTS, CCF, CCFII and MDH
Output	**Available Output Media**
T+5 Settlement Reports	PTS, and as part of the CCF and CCF2 Settlement Reports
Intra-day Settlement Notifications (UMS)	PTS, CCF, CCFII and MDH

XII. ENHANCED ID SYSTEM OUTPUT

A. Machine-Readable Output

This section of the document describes the machine-readable outputs provided by the enhanced ID system. It includes: 1) the three formats for confirmations (and other reports generated in confirmation format) which will be provided by the enhanced ID system; and 2) all outputs which will be provided by the enhanced ID system, including the frequency of output production (i.e., throughout the day, or once at end of day) and an explanation of how new reports would be converted into existing report formats for ID users not capable of receiving new output formats (when applicable).

1. Output Formats for Confirmations and Reports Generated in Confirmation Format

Three types of output formats will be available in the enhanced ID system: 1) the existing domestic format; 2) the existing international format; and 3) the enhanced format. These three confirmation formats correspond to the three formats available for Broker Trade Input.

Several reports generated by the ID system use confirmation formats with status indicators to provide additional information, such as whether or not the trade has been affirmed, matched, etc. Reports using the confirmation format will also be available in the three machine-readable formats outlined above. These include: 1) matched confirmations; 2) unmatched confirmations; 3) affirmed confirmations; 4) matched affirmed confirmations; 5) change of eligibility reports; 6) T+2, T+3 and T+4 unaffirmed reports; and 7) cumulative eligible trade reports.
(Note: Affirmed confirmations and matched affirmed confirmations are equivalent to the current Eligible Trade Report (ETR), the Ineligible Trade Report (ITR), the CNS Eligible Trade Report and IID Receive/Deliver Instructions.)

Each of the confirmation formats described below will be available for all of the reports generated in confirmation format.

a. Existing Domestic and International Confirmation Formats

The existing confirmation formats will remain unaltered, and will continue to be generated for ID users receiving old output.

b. Unified Enhanced Confirmation Format

The following additional fields will be reported on enhanced domestic and international confirmations:

1. Settlement location (country/depository code)
2. Split currency settlement indicator (for international trades only)
3. Original broker confirmation number (for confirmation to be cancelled or corrected)
4. Expanded record types (to include corrections and change of eligibility)

5. New list of security types
6. Settlement amount difference
7. State, local and province tax field (Currently provided only for domestic trades, this field will now be provided for international trades.)
8. The Match Status Indicator
9. Amortized/Accreted Factor
10. Additional Interested Party Information

2. <u>Enhanced ID System Output Descriptions</u>

The outputs are:

a. Confirmations

1. Confirmations generated in existing domestic and international formats

Confirmations generated in existing domestic and international formats will be available to ID users throughout the day, at the user's choice of frequency, with the exception of Unmatched Confirmations and Change of Eligibility Reports, which will be available at end of day only.

New Confirmation types will be converted into existing ID system outputs as follows: 1) Matched Confirmations and Unmatched Confirmations will be converted into existing confirmations; and 2) Affirmed Confirmations and Matched Affirmed Confirmations will be converted to existing Eligible Trade Reports (ETR's) and Ineligible Trade Reports (ITR's). Change of Eligibility Reports will not be generated, but an inquiry will allow users of existing output to monitor these changes.

2. Confirmations generated in the unified enhanced format

Confirmations generated in the enhanced format will also be generated throughout the day, or at end of day according to user preference (with the exception of Unmatched Confirmations and the Change of Eligibility Report which will be generated at end of day).

b. Notifications of Order Execution, including Errors and Institution Rejections (DK's), will be available throughout the day. These are new report types, generated in new report format only.

c. Institution Instructions

Institution Instructions, including cancellations, will be generated throughout the day. Unmatched Institution Instructions will be generated at end of day only. This is a new report type, and will be generated in new report format only.

d. Institution Requests for Correction/Cancellation of Broker Trade Input will be generated throughout the day in new report format only.

e. Affirmation Error Reports will be generated throughout the day in new report format only.

f. Cumulative Eligible Trade Reports will be generated at end of day on S-2 in both existing and enhanced report formats.

g. T+2, T+3 and T+4 Unaffirmed Reports will be generated at end of day in both existing, and enhanced report formats.

h. T+5 Reports will be generated on the morning of T+5 in existing report format, and will also contain unaffirmed trades and sections for multiple settlement dates.

B. PTS, PC Dial-in and Hardcopy Outputs

PTS, PC Dial-in and hardcopy will be enhanced to include those fields contained on the enhanced trade output format. New PTS and PC Dial-in applications will be available as specified in this document.

XIII. SYSTEM CONSIDERATIONS FOR RECEIVERS OF EXISTING CCF/CCFII OUTPUT FORMATS

A. Changed Processing Schedule

The affirm input cutoff will be extended from approximately 7:30pm to approximately midnight and trade input cutoff will be moved back from 1:45am to midnight. The extension of the affirm input cutoff results in moving the availability of the current eligible trade, ineligible trade, CNS eligible trade, cumulative eligible trade and unaffirmed reports from midnight to approximately 4:00am ET (end of day). The availability of confirm-related end-of-day reports will move up from 6:00am to approximately 4:00am.

B. Old/New Conversions

Receivers of international and domestic output in existing CCF/CCFII output formats will not always be able to receive all data as it is either entered or processed. This is due to the fact that: 1) new input fields were added to the enhanced input formats which do not have a corresponding output field in the existing format; 2) new processes were introduced within interactive ID that cannot be completely reflected to receivers of existing output formats; 3) existing output receivers could potentially receive multiple records on the same day with the same DTC control number; and 4) processes were eliminated within interactive ID but still may be utilized by existing format users and cannot be exactly reflected to receivers of enhanced format output. The following section describes these four types of "conversion" scenarios, which may occur until all existing format inputs and outputs are eliminated.

1. <u>New Input Fields Added to the Enhanced Input Format with no Corresponding Output Field in the Existing Format</u>

   New State/Local/Province Tax Field

   This new tax field will be added to enhanced input and output for confirmations where only one tax field is now available in IID. Receivers of the existing international format cannot receive this field. Therefore the contents of this new input field will be added to the contents of the current tax field for receivers of existing format international output.

2. <u>New Processes Introduced Within Interactive ID that Cannot Be Completely Reflected to Receivers of Existing Output Formats</u>

   a. Broker-Dealer Confirm Number
      The broker-dealer confirm number is provided by the broker-dealer on trade input. Currently this is an optional field, and if submitted, is not validated within the ID system. Interactive ID will allow the broker-dealer to inquire, correct and cancel a trade using this field as the key to the original trade. Therefore, this field must be

unique and will be required for existing and enhanced trade input formats. Interactive ID will reject trade input that contains a broker-dealer confirm number that already exists in the system.

DTC will assist this transition by modifying the current domestic and international ID systems by mid-1993 to generate informative messages which will be returned on hardcopy, PTS and CCF confirms that contain duplicate broker-dealer confirm numbers.

b. New System Correction/Cancellation Processing

This facility will enable a broker-dealer to correct or cancel an existing confirm within the interactive system. A new DTC control number is always issued for the corrected or cancelled trade, and, as described in the correction/cancellation processing sections of this document, the existing confirm may become inactive. Whenever an unaffirmed/unmatched confirm becomes inactive within the new system, an existing format user will receive a cancellation by control number. Whenever an affirmed or matched affirmed confirm becomes inactive, an existing format user will receive a cancel by control number cancellation and it will be reflected on a special inquiry to enable an existing format user to balance its daily eligible trade reports to its cumulative eligible trade report, which would contain fewer items for the same settlement date if the trade becomes inactive before end of day on trade date + 3.

c. Additional Interested Party

The new system will provide for an additional interested party. Currently the domestic system allows for two interested parties, and the international, for two sub-custodians. The third interested party will only be available if recorded in SID. Receivers of the enhanced output will be able to receive the additional interested party, but current domestic and international output will not be changed to include the additional party. Therefore a trade confirmation will contain more or less party information depending upon whether recipients are new or old format users.

d. ID Control Number

The size and format of the ID control number (nine character numeric) will remain. However, the current system serially generates an eight character number in ascending order and appends a check digit as the ninth character. The interactive system will randomly issue control numbers using the full nine characters, eliminating the ninth position as a check digit.

3. Receipt of Multiple Records with the Same DTC Control Number

The interactive system will generate confirmations (including matched confirmations), affirmed confirmations (including matched affirmed confirmations), corrections and cancellations as they occur. Existing format users could therefore receive more than one record for the same DTC control number at end of day. For example, an existing format user could receive a confirm, an Eligible Trade Report and a Cumulative Eligible Trade Report for a trade affirmed on the same day it is input.

4. Processes Which Will Be Eliminated

a. Current System Administrative Cancellations

This facility currently enables the broker-dealer to generate a cancellation without directly referring to the original confirm. The broker-dealer provides the same trade detail as existed on the original confirm, but since a linkage is not provided to the original trade, it does not prevent affirmation or settlement of the original trade. This facility is being eliminated and replaced with a function that will enable the broker-dealer to cancel or correct a trade using its broker-dealer confirm number. The new cancelled confirm will contain a new DTC control number, as well as the DTC control number of the original cancelled confirm. Administrative cancellations cannot be input using the enhanced format, but may be received by enhanced format users and will contain only one DTC control number, enabling them to distinguish an administrative cancellation from a cancellation by broker confirm number.

b. Current System Cancel by Control Number

This facility currently enables the broker-dealer to cancel and confirm by directly referring to the original confirm by the DTC control number This facility is being eliminated and replaced with a function that will enable the broker-dealer to cancel or correct a trade using its internal broker-dealer confirm number. The new cancelled confirm will contain a new DTC control number, as well as the DTC control number of the original cancelled confirm. Cancel by control number cancellations cannot be input in the enhanced format, but may be received by enhanced output system receivers and will look the same as cancel by broker-dealer confirm number (containing two control numbers).

THE DEPOSITORY TRUST COMPANY

Memorandum

JANUARY 9, 1992

TO: PARTICIPANTS AND OTHER ID USERS

ATTENTION: DIRECTOR OF OPERATIONS
OPERATIONS PARTNER/OFFICER

SUBJECT: AN INTERACTIVE OPTION FOR THE INSTITUTIONAL DELIVERY SYSTEM

This memorandum outlines DTC's proposal to include an option for interactive use of the Institutional Delivery (ID) system in order to improve post-trade data flow and reduce costs to Participants and other ID users.

Background

At the request of the G-30 U.S. Working Committee's T+3 Brokers and Banks Subgroup, DTC analyzed ID system input patterns for original trade confirmation data input, cancellations and corrections, and affirmations. Based upon this analysis and other information, the Subgroup formulated requirements for an enhanced ID system. The proposal was distributed for comment by the G-30 U.S. Working Committee in November 1990.

In early February 1991, an ID Focus Group was established to review the November proposal. The Focus Group consists of broker-dealer, bank, and institutional users of ID affiliated with the Investment Company Institute (ICI), Investment Counsel Association of America (ICAA), New York Clearing House (NYCH), The Securities Operations Division (SOD) of the Securities Industry Association (SIA), and the Bank Depository User Group (BDUG).

The Focus Group reviewed the Subgroup's proposal and in May 1991 recommended it to the Subgroup. Subsequent study by DTC suggests that Participants and other ID users would benefit from an even further enhanced ID system. The proposed system would combine the ID Focus Group's proposal (restructured to accommodate the current T+5 environment) with optional features for users desiring them that could accomplish trade allocation, notification of order execution and matching of broker-dealer and institutional customer trade data.

The Proposed System

An ID system that provided users with an interactive option would unify the current ID and International ID (IID) systems. The sections below

describe the new features of such a system.

System users could use the system in one or both of the following ways: 1) in the present batch environment and/or 2) interactively, with the capability to accomplish all ID/IID processing within a single business day.

Broker-dealers (or service bureaus on behalf of broker-dealers) could forward fully configured trade data by transmitting single or multiple batches during the day via CCF or CCFII or, interactively, throughout the day via PTS, thereby giving such users additional time to obtain needed information from their customers (affirmation instructions, for example) or giving both user types the ability to complete all ID/IID processing in as little as a single day.

Notification of Order Execution

Currently, upon receipt of a trade order from an institution, a broker-dealer executes the trade and telephones the institution with the details (order execution), which include total shares/bonds purchased or sold, price, taxes, commission, etc. The notification-of-order-execution option automates this part of the trade order flow by enabling the broker-dealer to communicate order executions directly to the institution through ID. This would replace manual telephone communication.

Allocation Processing

Currently, upon completion of the notification of order execution process, the institution provides the broker-dealer with allocation instructions for its specific customer accounts either by another telephone call, facsimile transmission, or through a vendor's system. The allocation processing feature automates the process by allowing the institution to communicate allocation instructions to the broker-dealer through the system. Standard system processing could then continue with trade confirm data being furnished by the broker-dealer in either the current or interactive mode.

Standing Instructions Data Base

To further enhance system processing, DTC would develop a standing instructions data base. Institutions and broker-dealers could furnish DTC with details of their customer accounts. Then, when communicating trade input, the broker-dealer would simply refer to these account designations and the ID system would automatically add the necessary associated detail (customer, agent, interested parties, etc.) to the confirmation. This would eliminate the need for the broker-dealer to maintain all related information about the institution's customers and the need for the broker-dealer to provide all such information as part of trade input.

Advice of Correction

Currently, upon receipt of a confirmation, the institution either affirms it or notifies the broker-dealer of needed corrections by telephone. The broker-dealer then submits a cancellation input and corrected trade input

which must be affirmed by the institution.

As an alternative, DTC would offer institutions the ability to provide an advice of correction to the broker-dealer through the system.

Upon receipt of an advice of correction, the system would retain the data for subsequent comparison to corrected broker-dealer trade data and provide the broker-dealer with an advice of correction message. The broker-dealer would review this advice and, if appropriate, submit corrected trade input. DTC would cancel the original confirmation and compare the corrected trade against the institution's pending advice of correction instruction. If both agree, DTC would automatically affirm the trade and forward an affirmed confirmation to the institution, agent and the broker-dealer. Should the corrected trade not agree with the pending advice of correction, both the broker-dealer and institution would receive a message to that effect and a corrected confirmation would be produced from the information supplied by the broker-dealer. The institution would have the option to affirm this corrected confirmation even though it did not compare to its advice of correction, submit a new advice of correction or contact the broker-dealer outside the system to work out the problem.

Matching

As an alternative to current confirmation and affirmation processing, DTC would offer an optional matching feature. Broker-dealers could submit block or fully allocated trade data, and institutions could submit allocation instructions, including price and commission details needed for matching purposes. DTC would match trade data received from broker-dealers to allocation instructions received from institutions and, if in agreement, would distribute fully allocated and automatically affirmed confirmations. Should broker-dealer input disagree with the institution's input, an unmatched inquiry would be available immediately and an unmatched report (similar to the unaffirmed report) would be distributed the next business morning. This would further shorten and simplify processing and eliminate the need to match in-house.

Authorization Processing

Since most unaffirmed trades of DTC eligible securities eventually result in deliver orders being processed, DTC will provide deliverers the ability to authorize unaffirmed trade confirms for automated settlement. In addition, the system will be enhanced to provide authorization of trades on T+5 and beyond. This will enable deliverers to take full advantage of the efficiencies of pre-authorized automated settlement.

Other Considerations

These interactive intra-day processes will be supported by inquiry functions that will provide the broker-dealer, institution and agent with up-to-the-minute details of affirmed/unaffirmed and matched/unmatched trades, as well as pending advice of correction instructions. These functions could replace the cumulative eligible trade and unaffirmed reports.

Settled and unsettled trades would generate microfiche reports detailing post-trade processing history. These reports would be available to broker-dealers, agents and institutions.

An interactive ID system could also include recent suggestions for system enhancements that DTC has received from Participants. For example, the system could provide for optional menus for customized trade data input regarding specific instruments such as municipal bonds and mortgage-backed securities. A redesign of the existing monthly quality control reports could also be included. Additional inquiry capabilities could include the ability for ID users to view ID Directory-related information on-line.

Cost Benefits

Some of the cost savings to the industry that would result from the implementation of an interactive option to the ID system include:

- The Notification of Order Execution and Allocation Processing features would enable broker-dealers and institutions to communicate with each other through DTC and eliminate the telephone calls that these functions now require. The Standing Instructions Data Base (SID) would enable the institution and broker-dealer to establish and/or maintain account information at DTC. Use of SID would also reduce data transmission time, the number of account coding errors and the clerical effort needed to correct them. The Notification of Order Execution, Allocation Processing and Standing Instructions Data Base features could save the industry several million dollars a year in telephone, transmission, and employee costs.

- The Advice of Correction function would automate the costly, manual process required for institutions to notify their broker-dealers of trade corrections. Based on the interviews mentioned previously, DTC estimates that reduced clerical functions and eliminated phone calls would save an estimated several million dollars annually industrywide.

- The enhanced correction capabilities offered through the advice of correction function would enable broker-dealers to eliminate the cancellation confirm that is produced in the current ID system. This could reduce ID fees to broker-dealers and agents.

- The Matching feature eliminates the need for institutions to build and maintain, or acquire matching services. It also eliminates the affirmation function and the clerical costs associated with matching. While it is difficult to project cost savings for this feature, DTC believes it could be as high as several million dollars annually.

- The ability to authorize affirmed/matched, as well as unaffirmed/unmatched, trades for settlement results in reduced cost by replacing deliver orders (DOs) with ID deliveries. The savings to broker-dealers and banks would probably exceed one-quarter million dollars a year.

Cost to Develop

DTC estimates that the development costs for a unified interactive system with the features described above, which are projected at approximately one and a quarter million dollars, would be partially or fully offset by reduced maintenance costs (maintaining one system instead of two) and by incorporating currently scheduled enhancements to ID and IID into the design of the new system.

While there will be significant savings for securities industry members who use the interactive option, the cost of converting existing systems must be considered; however, since the interactive service is proposed as an option, available when users are ready for it, the necessary systems work by each user can be included as part of regular systems maintenance or future redesign efforts.

Conclusion

Based on the efforts of the ID Focus Group, the results of interviews with ID users, and its own review, DTC has concluded that an interactive option within the ID system incorporating some or all of the features described here would be beneficial. If Participants and other ID users agree with the proposals in this document, DTC could develop a detailed implementation plan by the third quarter of 1992, for installation by late 1993 or early 1994.

DTC encourages user responses to these proposals, including comments on potential cost savings. Comments are requested by March 1, 1992, and may be addressed to Richard A. Bednarz, Director, ID Group, The Depository Trust Company, 7 Hanover Square, New York, New York 10004.

Upon receipt of the Institution Instructions, the executing broker-dealer (or broker-dealers if this were a step out trade) would ensure their accuracy. If the information did not agree to the execution, the broker-dealer would submit an Institution Instruction Cancel/Correction including the reason for rejection (e.g., wrong CUSIP, over allocated, etc.).

Assuming the Institution Instructions are accurate, the broker-dealer could then allocate the trade, and provide DTC with Broker Trade Input - one per account. If the broker internal account number for the account is resident on SID, there will be no need for the broker-dealer to enter customer, interested party, agent, and clearing agent information. Further, if the broker-dealer entered clearing broker information into SID, this information could also be eliminated from the input.

Since the new system will merge the existing ID and International ID systems, Broker Trade Input can be submitted to DTC in one of three formats - existing domestic or international, or a unified enhanced format. The enhanced format, besides unifying the domestic and international formats, allows for cancellation and correction via broker confirmation number, in lieu of cancellation by DTC control number or the administrative cancellation procedure. It also allows for matching of DTC ineligible issues by codifying settlement related information. All three formats may be submitted interactively throughout the day or once daily at the broker-dealer's choosing. Broker-dealers can either submit trade input exclusive of customer and settlement information by linking their broker internal account number to the customer/account established on SID or retrieve the information from their internal customer databases and include this information on each trade submitted.

For broker-dealers and institutions electing to match, DTC would compare Broker Trade Input to Institution Instructions. If a match is found and the institution has affirmation authority, a matched affirmed confirmation is generated; otherwise, a matched confirmation is produced. The matched affirmed confirmation takes the place of both the confirmation and eligible/ineligible/CNS eligible trade report and can be provided to all parties named on the confirmation. The matched confirmation would be used to notify the affirming party that the institution agrees with the details of the trade. The affirming party could then affirm the trade, and a matched affirmed confirmation would be produced.

If a match is not found, but all details other than the money fields required to calculate settlement amount match, then a Potential Match Report would be generated and forwarded to the broker-dealer and institution immediately. If a Potential Match cannot be ascertained, an Unmatched Report would be generated to institutions and broker-dealers at end of day. The report would list all unmatched Broker Trade Input and Institution Instructions inclusive of those items previously reported on the Potential Match Report. In addition, Unmatched Confirmation and Unmatched Institution Instructions would be made available to all named parties.

Trades could be unmatched because either the institution or broker-dealer failed to submit their input or because one or both of the submissions are incorrect. Incorrectly submitted Broker